Master's thesis

NTNU
Norwegian University of Science and Technology
Faculty of Economics and Management
Department of International Business

Anita Borodako

# ESG integration in banking: A qualitative study on the impact of regulation on banks´ operations

Master's thesis in International Business and Marketing
Supervisor: Ainur Begim
May 2023

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# Acknowledgement

This master's thesis marks the final stage of my studies at NTNU Ålesund. Where I completed my master's degree in International Business and Marketing.

This thesis had many ups and downs during its progress, and it could not have been written without the wonderful guidance, input, and support of my supervisor, Ainur Begim. I also want to thank the interviewees who took the time to assist me with contributions to my master´s thesis.

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*Anita Borodako*
Ålesund, May 2023

# Abstract


The banking sector has started to place a lot of emphasis on environmental, social, and governance (ESG) concepts. Banks are aware of the importance of ESG aspects in preserving their positive social impact and supporting the communities in which they operate. As a result, integrating ESG principles into daily operations has become an essential priority for many institutions.

Banks now have a chance to innovate and develop new products and services thanks to ESG concepts. The goal of banks is to promote industry innovation and expansion while creating long-term benefit for all stakeholders. As a result, the financial sector has strengthened and become more robust, improving its capacity to face new problems. Additionally, present and future customers find banks that follow environmental trends more desirable.

Green loans, green finance, green reporting, and green standards have offered a starting point and increased the bar for banking from a decade ago, despite the fact that the banking sector does not currently provide many products and services with a sustainability focus.
Diverse banks take diverse approaches to sustainability, with some integrating sustainability ideas into their everyday operations and others still catching up. Some banks have made substantial success in doing so.

It is clear that banks care about environmental, social, and governance concerns, but they are restless for more stringent and comprehensive ESG regulations to make the process of incorporating ESG into bank operations easier. It has become difficult for banks to maintain all of the frameworks, standards, and laws at once due to the rising quantity of them. However, these regulations offer a place to start the procedure, providing banks a clearer picture of what lies ahead.

# Sammendrag

Banksektoren har begynt å legge mye vekt på miljø-, sosial- og styringskonsepter (ESG). Bankene er klar over viktigheten av ESG-aspekter for å bevare deres positive sosiale innvirkning og støtte lokalsamfunnene de opererer i. Som et resultat har integrering av ESG-prinsipper i den daglige driften blitt en viktig prioritet for mange institusjoner.

Bankene har nå en sjanse til å innovere og utvikle nye produkter og tjenester takket være ESG-konsepter. Målet til bankene er å fremme bransjeinnovasjon og ekspansjon samtidig som det skaper langsiktige fordeler for alle interessenter. Som et resultat av dette har finanssektoren styrket seg og blitt mer robust, noe som har forbedret kapasiteten til å møte nye problemer. I tillegg synes nåværende og fremtidige kunder at banker som følger miljøtrender er mer attraktive.

Grønne lån, grønn finans, grønn rapportering og grønne standarder har gitt et utgangspunkt og økt grense for bankvirksomhet fra et tiår tilbake, til tross for at banksektoren i dag ikke leverer mange varer og tjenester med bærekrafts fokus. Ulike banker har forskjellige tilnærminger til bærekraft, noen innlemmer bærekrafts ideer i sin daglige drift, mens andre fortsatt tar igjen. Noen banker har gjort betydelig suksess med å gjøre det.

Det er tydelig at banker bryr seg om miljømessige, sosiale og styringsmessige bekymringer, men de er rastløse for strengere og omfattende ESG reguleringer for å gjøre prosessen med å innlemme ESG i bankdrift enklere. Det har blitt vanskelig for banker å opprettholde alle rammeverk, standarder og lover på en gang på grunn av den økende mengden av dem. Disse forskriftene gir imidlertid et sted å starte prosedyren, og gir bankene et klarere bilde av hva som venter.

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# 1. Introduction

The Earth is currently facing significant societal and climate challenges, with the science behind climate change becoming increasingly alarming. As a result, there is a growing need to transform the capitalist system to address these issues, which are widely recognized as having their roots in the industrial world built upon previous generations (Clément, A., 2022).

In response to these challenges, an ESG industry has emerged to meet the demands of asset owners and investment managers. While the initial focus was on equities, there has been increased interest in ESG investing across all asset classes, including financial and non-financial corporates, public finance, project finance, and structured finance, although some areas are seeing greater demand than others. Asset owners are the main drivers of this shift and have implemented responsible investment practices, such as screening for ESG factors in their fixed income portfolios since the early 2000s (FitchRatings, 2021).

ESG factors encompass a range of considerations, including environmental, social, and governance factors. Environmental factors focus on a company's environmental practices and policies, considering factors such as carbon footprint, energy consumption, climate change and waste. Social factors center around a company's social responsibility and its impact on the community, considering factors such as health, safety, diversity, and responsibility. Governance factors pertain to a company's accountability, ethics, and transparency measures, considering factors such as rights, management, and fraud prevention. (Emerick, D. n.d. and Matos, P., 2020)

## 1.1 Research question

With that in mind, I want to look further into how ESG regulation affect banks' operations and as well look closer at the challenges they confront. It is crucial to comprehend how banks are adjusting to these legal changes and integrating ESG factors into their operations given the growing emphasis on sustainability in the business world.

As a result, this thesis's research questions are as follows:

***How do banks integrate ESG into their operations, and what do they face in regards of following the regulations?***

## 1.2 Structure of the thesis

The topic and research question will be introduced at the beginning of this thesis' structure before moving on to Chapter 2. The theoretical framework of the thesis will be presented here, along with an overview of various standards and regulations, the history of ESG, and a section on the integration of ESG and sustainability in banking and the financial sector.
The methodology of the thesis will be given in Chapter 3, where the qualitative approach, semi-structured interviews, the process of data collecting, obstacles, and the reliability and validity of the thesis will be discussed. The conclusion drawn from the interviews will be presented in Chapter 4 along with follow-up questions. Where quotations from the interviewees are used to present it. The findings from Chapter 4 will be discussed in Chapter 5 along with the presentation of the thesis' general conclusion in Chapter 6.

# 2. Literature review

In this chapter, I'll focus more on the literature portion of the thesis, including the history of ESG, how it was incorporated into financial institutions, the regulations those institutions must abide by, how ESG in banking functions generally, and the effects it has on the performance of those institutions. This evaluation of the relevant academic literature will provide an outline of the theoretical portion of the thesis as well as previous research on a related issue.

## 2.1. ESG history

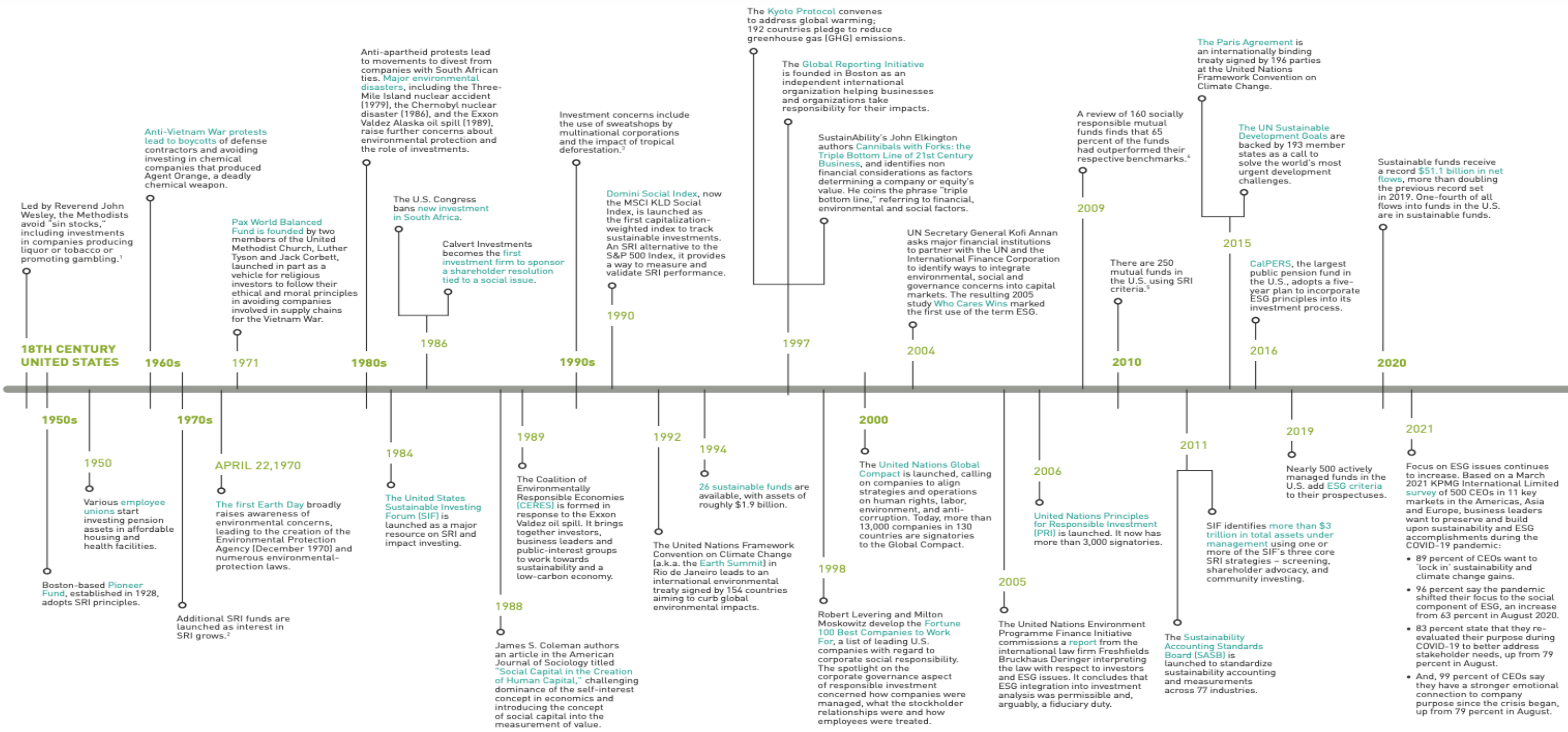
Investors and issuers are increasingly utilizing ESG and climate data and tools to inform their investment decisions. ESG stands for Environmental, Social, and Governance factors. ESG has its origins in Socially Responsible Investing (SRI), which originated in the 1960s when investors began excluding certain stocks or industries from their portfolios based on their involvement in activities such as tobacco production or support for the South African apartheid regime (MSCI, n.d.). In the past ten years, ESG emerged as an important financial framework for consideration of non-financial risks and opportunities. With the rise of ESG, investors became increasingly interested in ESG data (Eccles, et al, 2020).

ESG investing is primarily concerned with improving investment performance by evaluating whether ESG issues could impact a company's performance and the investment performance of a long-term portfolio. For example, how the changing climate is affecting specific companies, industries, and sectors or how labor disputes or corruption scandals can impact companies' financial performance. In the past 15 years, the concept of fiduciary duty has been reframed to include consideration of relevant ESG issues. This in turn enabled lawmakers and regulators to recognize the importance and relevance of ESG in the financial context and promote its use among financial practitioners. Experts predict that ESG will eventually become a standard research technique and may even fade as a separate process. There is a growing expectation that fiduciaries of long-term institutional investors should strive to develop a well-reasoned approach to ESG investing (Caplan, et al., 2013).

In the 2000s, ESG gained greater attention and was first introduced in a report by the United Nations Global Compact in 2004. In the report, the financial sector made suggestions on how to better include ESG concerns into analysis, asset management, and securities trading. ln an effort to create understanding over how to enhance the integration of ESG (Compact, U.G.,2004). Afterwards, the investment industry also integrated it. In recent years, there has been a significant increase in the adoption of ESG by companies and organizations, reflecting its growing importance in daily practice (Byrne, D., 2022).

The European Union has also taken an initiative to promote the ESG transparency and disclosure with help of SFDR. The Sustainable Finance Disclosure Regulation (SFDR) of the European Union intends to improve openness in the market for sustainable investment products, eliminate greenwashing, and increase clarity about sustainability claims made by financial market participants. This regulation mandates that financial service providers and financial product owners publicly assess and disclose ESG considerations. The SFDR sets out the precise content, methodology, and presentation of the information that must be disclosed, resulting in improved quality and comparability of the disclosed information. The SFDR requires financial market participants to provide comprehensive information on how they address and mitigate any potential negative impacts that their investments may have on the environment and society at large (European Commission, n.d.c). Below follows a timeline of evolution of ESG.

**Figure 1:** *Evolution of ESG*




*Source: Breckingridge Capital Advisors (n.d)*

## 2.2 Integration of ESG

Many financial investors believe that consideration of ESG issues helps them make better financial decisions (Emerick, D., n.d.). Research on the topic is mixed, though some researchers have found that ESG can result in higher returns on equity, lower risk, and a lower cost of capital for companies with better ESG metrics. Additionally, investors can use ESG data to identify financially sound companies that also meet their social responsibility objectives.

Sustainability reporting is a valuable tool for investors to assess a company's strategy, management, products, and services in the context of their long-term goals. ESG corporate reporting enables investors to measure whether companies are fulfilling their commitments concerning relevant ESG issues within their supply chains. By providing this information, ESG reporting empowers investors to make informed decisions that align with their values and goals (Emerick, D., n.d.). Integrating ESG into investment strategies enables investors to not only generate returns but also support social good. This alignment of values and investments can offer potential long-term returns while also reflecting investors' values and

beliefs. Such an approach benefits both investors and companies, creating long-term investment opportunities with potentially greater returns and increased engagement and opportunities for innovation and growth.
Moreover, companies that adopt ESG criteria can benefit from increased engagement with stakeholders and access to new opportunities for innovation and growth. Overall, ESG investing is a positive step towards a more sustainable future that benefits all stakeholders.

The decision of whether to integrate ESG into their investment strategy ultimately depends on whether investors believe that ESG factors have a material impact on their ability to meet their liabilities now and in the future. According to the OECD (2017), many asset managers report an increase in clients who want to shift from traditional to modern investment approaches, with greater awareness of ESG investment strategies and peer pressure performing a significant role.

Yet, there are also several factors that may discourage some individuals from embracing this approach. The integration of ESG factors involves asking different types of questions that are not typically included in traditional financial analysis, which may reduce the incentive for asset managers to offer ESG investment products and solutions. Institutional investors tend to be more conservative and often encourage a cautious approach.

At the same time, Barker (2015) argues that the potential impact of climate change on corporate value is so significant that corporate directors cannot discharge their duty of care by taking a passive approach to the subject. Therefore, it is crucial for investors and asset managers to consider ESG factors seriously and integrate them into their investment strategies.

## 2.3 ESG data and disclosure

### 2.3.1 Disclosure

Because of the increased demand for ESG data, an entire industry of ESG data providers has spawned in a very short period. The ESG data market has a wide variety of offers available, which can give some challenges when discovering it for the first time.

The purpose the ESG Data is being defined in two different ways, with investors deciding to set the focus on companies´ hidden cost and unreported implications for the society and environment, other focus understand and accept the cost of the incorporation of ESG (Eccles, R. G., 2020). Trends on disclosing ESG practices in the global data stream are colossally expanded throughout the years as an exertion of the companies to remain sustainable (Tarmuji, I., 2016).

In the 2021 study, Dye et al. discovered that both ESG investor demands and company disclosures face challenges due to insufficient standardization. As a result, the financial sector is increasingly embracing the TCFD recommendations and the SASB framework when evaluating companies. European financial institutions have taken the lead in mandating that firms articulate their climate risk, establish goals, track progress, demonstrate improvement, and align with strategy.

Amel-Zadeh and Serafeim (2018)found that the lack of audit of ESG data was one of the main concerns of investors, concerned the larger investors more than the small investors, with a difference from 47% to 16%, with the "Lack of standards in reporting ESG information" - factor was Top 2 of the greatest challenges investors face with the integration of ESG with a difference , with a difference from 52% to 39%, and having "Lack of comparability" as number 1 concern.
These studies are just two of several others that have researched the problem regarding the lack of standardization in ESG disclosure.

### 2.3.2 Metrics, ratings, and raw data

ESG ratings have gained popularity due to the expectation that responsible investing techniques, which have produced higher returns on investments in previous years, will continue to succeed in the future. ESG ratings help to differentiate between upright and wicked companies and show that the latter are capable of addressing ESG issues. As a long-term investment, ESG ratings primarily offer lower risk by reducing the likelihood of environmental or societal challenges, such as global warming, affecting a company's profitability. A high ESG rating can enhance a company's financial success. However, the primary metric investors use to evaluate firms' ESG performance is ESG scores, which poses a challenge. Additionally, ESG ratings are increasingly being used in academic literature to measure sustainability and assess the sustainability of various firms. (Clément, A., 2022).

According to Abhayawansa and Tyagi (2021), inconsistencies in definitions and methods are contributing to the lack of agreement among various ESG ratings. The inconsistency in evaluating different ESG factors, especially with regards to the amount of information provided, is a significant factor in this discrepancy, resulting in the issue of comparability. Furthermore, the quantification of financially relevant ESG factors using indicators also contributes to the problem of comparability. While ESG ratings have become a popular way to assess sustainability, there are concerns about their reliability.

The use of multiple sources of information in developing ESG ratings also contributes to the comparability problem. These sources may include surveys, corporate interviews, independent information channels, sustainability reports, and other publicly available data from companies. Additionally, ratings from agencies that rely solely on publicly available data, often based on annual reporting cycles, may not accurately reflect a company's current ESG performance.

ESG ratings try to measure a company's performance in terms of sustainability, however they fall short in measuring both sustainability and positive global effect. ESG ratings work best for assessing an organization's likelihood of long-term viability. It involves considering the environment and other effects that an organization has on its surroundings, but simply as a means of determining if it has a chance of surviving in the long run, regardless of how it eventually affects society or the environment (Clément, A., 2022).

## 2.4 ESG Regulation

### 2.4.1 Frameworks and standards

The banking industry relies on various ESG frameworks and standards to guide their integration of ESG factors into investment governance. Policymakers may advocate for this integration among institutional investors to enhance financial market efficiency and risk discovery, among other objectives. However, regulatory challenges may still hinder ESG integration, and policymakers must distinguish between investment decisions made for financial versus ethical reasons. Reporting requirements may also be necessary to facilitate ESG integration among different investor types. Banks often employ a combination of these frameworks and standards to evaluate and address ESG risks and opportunities in their lending and investment operations. Sustainability is a top priority for policymakers, and these widely recognized frameworks and standards can provide insights into financial regulation across industries. They continue to evolve and improve, ensuring their relevance and usefulness in promoting ESG integration (OECD, 2017). Some of the main frameworks are outlined below.

### 2.4.2 EU Taxonomy

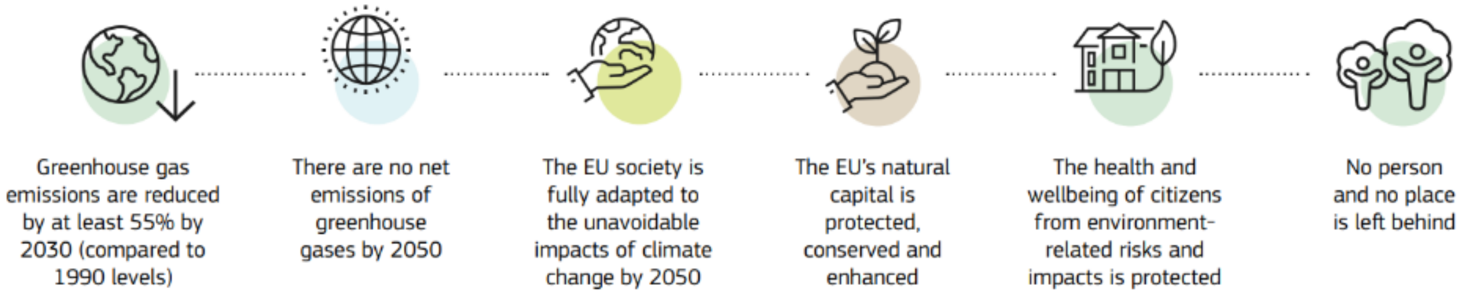
According to Morningstar, the EU Action Plan represents a significant policy initiative that seeks to harness financial markets to promote sustainable economic expansion in Europe, while effectively mitigating risks associated with ESG concerns. The plan has three primary goals:

- Redirect capital flows towards a more sustainable economy.
- Incorporate sustainability considerations into risk management practices.
- Encourage transparency and long-term thinking.

Investors can utilize the EU Taxonomy as a means of assessing whether an economic activity is environmentally sustainable and navigating the transition towards a low-carbon economy (Morningstar, n.d.).

The EU taxonomy aims to provide clear definitions of economic activities that qualify as environmentally sustainable, offering companies, investors, and policymakers a reliable classification system. The system establishes a list of economically sustainable activities, which can be instrumental in supporting the EU's efforts to scale up sustainable investments and implement the European Green Deal. By providing greater transparency and clarity, the taxonomy helps create a more secure investment environment and prevents greenwashing, while also encouraging companies to adopt climate-friendly practices (European Commission, n.d. b). Ultimately, the EU taxonomy plays a crucial role in promoting the transition towards a more environmentally sustainable economy by holding to following principles and objectives:

**Figure 1:** Principles and objectives




*Source:* European Commission (n.d.b)

### 2.4.3 CSRD

The Corporate Sustainability Reporting Directive is a directive that were entered into force on 5th of January 2023, to modernize and strength the rules around reporting of social and environmental information. Under the CSRD, all large and publicly traded companies operating in the EU will be mandatory to report on their sustainability performance, risks, and impacts in a standardized and comparable way (CDSB, n.d.). The directive aims to make corporate sustainability reporting more reliable, relevant, and consistent across different companies and sectors, providing investors and stakeholders with the information they need to make informed decisions (European Commission, n.d.)

### 2.4.4 SFDR

The European Union's Sustainable Finance Disclosure Regulation (SFDR) came along on March 10, 2021, with the aim of enhancing transparency in the market for sustainable investment products. One of the key objectives of the SFDR is to prevent greenwashing by financial market participants, by requiring them to disclose in detail how they integrate environmental, social, and governance (ESG) factors into their investment decisions. Additionally, the SFDR mandates that managers assess and disclose how sustainability risks are factored into their investment processes and how investment decisions may impact sustainability factors negatively. By promoting greater transparency and accountability, the SFDR seeks to enable investors to make more informed decisions that align with their sustainability goals (Eurosif, n.d.).

### 2.4.5 NFRD

The Non-Financial Reporting Directive mandates that sizable corporations disclose information regarding various areas such as

- environmental concerns
- treatment of employees and social matters
- human rights protection
- anti-corruption and bribery measures
- board diversity.

The Directive applies to large entities with more than 500 workers, which encompasses approximately 11,700 firms such as banks, insurance companies, listed firms, and others designated by national regulators in the European Union. While the NFRD remains in effect, it will be supplanted by the new rules of the CSRD once they become applicable to companies (European Commission, n.d.).

### 2.4.6 GRI

The GRI Standards are widely recognized as the leading set of guidelines for sustainability reporting worldwide. They have been adopted by more than 100 countries and are used as policy instruments and stock exchange guidance in various regions. Over 160 policies across 60 countries and regions reference or require the use of GRI Standards, which provide clear guidelines for companies and organizations to report on their Environmental, Social, and Governance (ESG) performance.

The GRI Standards cover a comprehensive range of topics that companies and organizations can choose from to report on their significant impacts, including all relevant topics across the ESG factors. The Standards are designed as a modular system comprising three types of series. Firstly, the Universal Standards lay out important principles for identifying material topics when preparing a report. Secondly, the Sector Standards are sector-specific and applicable to the reporting organization, helping companies determine the most relevant sector for their material topics. Finally, the Topic Standards provide a set of disclosures that organizations can use to report on their impacts in relation to a specific topic and how they manage those impacts.

The GRI Standards are designed to be used by any organization to report in a standardized and comparable way, increasing transparency and accountability for the issues that matter most. With their widespread adoption and comprehensive coverage, the GRI Standards provide a valuable tool for companies and organizations looking to enhance their sustainability reporting practices (GRI Standards, n.d.).

### 2.4.7 PRI

The Principles for Responsible Investment (PRI) is an investor initiative that aims to integrate ESG factors into the investment decision-making process. This framework enables investors to incorporate ESG issues into their investment processes and engage with companies on such issues.

The PRI was established by a group of institutional investors from around the world in response to the growing relevance of ESG issues to investment practices. The United Nations Secretary-General convened the process. By signing the principles, investors publicly commit to adopting and implementing them, subject to their fiduciary responsibilities. They also pledge to assess the effectiveness of the principles over time and enhance their content as needed. This approach is expected to help investors meet their commitments to beneficiaries and align their investment activities with broader societal interests. Additionally, it is acknowledged that applying these Principles can align investors with society's broader objectives.

As part of the commitment to the PRI, investors agree to six key principles. These contain incorporating ESG issues into investment analysis and decision-making processes, actively owning assets and integrating ESG issues into ownership policies and practices, pursuing appropriate disclosure on ESG issues by invested entities, promoting the acceptance and implementation of the Principles within the investment industry, cooperating to improve the effectiveness of implementing the Principles, and reporting on activities and progress towards implementing the Principles (PRI, n.d).

### 2.4.8 TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB), with the aim of evolving recommendations on the types of information that companies should disclose. This material is intended to help investors, lenders, and insurance underwriters appropriately assess and price risks associated with climate change. The TCFD is dedicated to promoting market transparency in this regard.

The success of the TCFD recommendations relies heavily on their widespread adoption by companies in both the financial and non-financial sectors. When these recommendations are widely adopted, financial risks and opportunities related to climate change will naturally become an integral part of companies' risk management and strategic planning processes. Consequently, companies and investors will develop a better understanding of the potential financial implications associated with transitioning to a lower-carbon economy and climate-related physical risks. This will enable information to become more decision-useful, and risks and opportunities will be more accurately priced. Ultimately, this will lead to a more efficient allocation of capital (TCFD, n.d.).

### 2.4.9 Accounting act §3-3c

The Norwegian accounting act §3-3c claims that major businesses must disclose and account for their social responsibilities, which includes, among other things, protecting the environment, improving socioeconomic circumstances, upholding human rights, and preventing corruption and bribery. The Norwegian Accounting act §3-3c is one of the many acts that banks follow, by its variety of disclosure and account. The accounting act came into force in January 2023, since the accounting act first seen the light in 2022, this year will be the first time it will be used for reporting (Regnskapsloven, 1998, §3-3c).

### 2.4.10 ISSB

The international Sustainability Standards Board were proposed by the IFRS Foundation on 3rd November 2021, which aims to promote public interest by providing high-quality, comprehensive global sustainability disclosures. The standards are designed with a focus on the needs of investors and financial markets.

The ISSB has four main objectives:

1. developing standards for a global baseline of sustainability disclosures.
2. meeting the information needs of investors.
3. enabling companies to provide comprehensive sustainability information to the global capital markets.
4. facilitating interoperability with jurisdiction-specific disclosures and those aimed at broader stakeholder groups.

By providing a unified framework for sustainability disclosures, the ISSB seeks to improve the quality and comparability of sustainability information available to investors and other stakeholders, thus promoting greater accountability and transparency in corporate reporting, and supporting the work of organizations such as CDSB, IRF, and SASB (IFRS, n.d.).

## 2.5. Sustainability and Banking

The role played by banks in accomplishing the Sustainable development goals is generally recognized. These financial institutions increasingly address social and environmental issues and engage in several sustainable practices as a result of their significant effect on society and the environment. As stated by Zimmermann, S (2019), banks may adopt energy-efficient technologies, encourage staff to use public transportation, allow access to persons with disabilities, offer green credit funds, and pick suppliers that uphold environmental and social standards. Such procedures improve businesses' social and environmental performance, which in turn can benefit banks' operational and financial performance as well as the emotive and behavioral reactions of their clients.

### 2.5.1 ESG in banking

The importance of banks in achieving the Sustainable Development Goals is generally acknowledged (Zimmermann, S., 2019). They play a crucial function in an economy because they act as a bridge between those who lack capital and those who have an excess of it (Jeucken, M., 2017). Considering their significant effects on society and the environment, they are often addressing the social and environmental concerns, while applying variety of practices within sustainability (Zimmermann, S., 2019). Banks generally give out products that include savings, investment, lending, payments, guarantees and advice, at the same time they may give green loans, energy-efficient technologies and use suppliers with environmental and social ideas (Jeucken, M., 2017). These practices enhance banks´ social and environmental performance, which benefits consumers' emotional and behavioral responses, banks' reputation, and financial performance (Zimmermann, S., 2019). Many companies are conscious that ESG disclosure is essential to presenting a positive reputation and image to stakeholders while addressing the problem of environmental challenges (Tarmuji, I., 2016).

A corporation's sustainability plan is described as one that aims to advance social advancement, climate action, and present and future economic success for the firm and its stakeholders. Banks are able to take sustainability considerations into account when making investment decisions; this process is known as socially responsible investing (SRI).
A form of investment known as an SRI nowadays takes non-financial considerations, such as ethical, social, or environmental considerations, into account when making decisions. Financial institutions, for instance, can utilize both positive and negative criteria when making decisions, which has a direct impact on the purpose, importance, and values of businesses (Zimmermann, S., 2019).

In order to ensure sustainability and a better financial system, politicians, investors, and regulators have intensified their pressure on companies by requesting the disclosure of and inclusion of ESG-related features in their financial choices and decisions. One of the causes is corporate negligence when it comes to credit risk, which in turn highlights the connection between ESG factors and credit risk because of the long-term advantages it produces but also because of the opportunities, advantages, and challenges that may emerge along the way. However, the financial industry's most innovative issue in recent years and for the upcoming few years to progress in a more sustainable path is the incorporation of ESG variables in credit risk assessment (Gaganis, et.al, 2023).

There are two primary approaches to integrate sustainability into lending: risk-based lending and value-based lending. When the risk-based method is used, the emphasis is on how to include ESG variables into credit risk assessment. The risk-based approach investigates whether ESG elements affect credit risk in ways that are not currently accounted for in credit risk assessment and screening procedures. Where banks use social and environmental considerations to calculate risk premiums. There is evidence that financial performance and social and environmental performance support one other. Banks can offer reduced borrowing rates to businesses with higher ratings on social and environmental factors (Schoenmaker, D., 2019).

In the value-based approach, stakeholders/investors may be concerned about ESG factors for reasons other than monetary gain. It is also known as impact lending, and it occurs when banks finance to initiatives that have a good social or environmental impact, such as health care and renewable energy. Another interpretation is that banks are borrowing to companies who are transitioning from a linear to a sustainable business model (Schoenmaker, D., 2019).

### 2.5.2 Sustainable and responsible finance

The concept of sustainable finance is an extension of a company's objectives, with a focus on the behavioral assumptions of contemporary economic agents. Guided by transaction costs, it selects three business objectives, and in addition to the essential risk/return objective, it prioritizes future environmental and/or social claims as the main business activity. This normative decision is justified by two factors. Firstly, turning a corporation into a cash-flow generator is incompatible with its moral role in civil society. Secondly, this normative decision is grounded in a lengthy historical observation (Soppe, A.,2004).

Sustainable finance creates a circular connection between savers, entrepreneurs, and investors while also internalizing social and environmental externalities, thereby breaking the link between capital accumulation and distribution. Another approach to responsible investing involves utilizing specific inclusion filters to evaluate a company's ESG practices. The concepts of responsible finance and sustainability are closely intertwined, with financial institutions increasingly adopting responsible finance strategies that incorporate social and environmental standards that investments must meet. These policies may be established by a single financial institution or by a group of institutions, such as PRI, for others to adopt. Over the past decade, there has been a rush in the adoption of sustainable or responsible financing. To optimize a "three-dimensional goal" that considers "long-term financial, social, and

environmental variables," financial practitioners employ responsible finance strategies (Willem, et.al., 2012).
Financial institutions are engaging more weight on sustainable development, financing, and environmental and social responsibility because of stakeholders' pressure on banks to do socially and environmentally responsible measures. It is significant to note that several studies highlight the importance of ethical standards in finance as well as the potential benefits of sustainability in improving the stability of the financial system. Governments at all levels place a high priority on sustainability, and moral firms may assist them in achieving objectives like social and environmental advancement. The involvement of the banking sector in environmental and sustainability concerns is relatively new (Carè, R., 2018).

### 2.5.3 Sustainable finance in Norway

In June 2018, Finans Norge presented a roadmap for green competitiveness in the financial industry. This roadmap describes the path to a profitable and sustainable financial industry in 2030. The roadmap formulates recommendations for the financial industry and the authorities to succeed in the transition with an ambitious and realistic vision. The financial industry plays a key role in Norway´s transition to a low-emissions society (Finans Norge, n.d).

The Ministry of Finance recommended that the financial sector provide sustainability information and a framework for sustainable investments. The demand for sustainable investments has risen, leading to the rapid expansion of the market for green investment products in Norway and abroad. However, a lack of comparable information from financial product suppliers can make it challenging for investors to navigate the market and choose suitable goods and services. To address this, the "disclosure regulation" was approved on November 27, 2019, which aims to enhance the information provided to end investors and strengthen investor protection.

On June 18, 2020, the European Union established Regulation (EU) 2020/852, which creates a framework to encourage sustainable investment and modifies Regulation (EU) 2019/2088. The framework aims to establish a shared understanding of which economic endeavors and financial commitments are sustainable, in line with the long-term environmental and climate goals of the EU. Common European criteria will simplify the assessment of investment opportunities across nations and industries and reduce the risk of "greenwashing." Future European standards and labeling programs for financial products will be based on this framework (Regjeringen, n.d).

### 2.5.4 Norwegian Bank Industry

Banks, finance firms, and credit companies are the most significant financial institutions, according to The Norwegian Financial Supervisory Authority. where everyone is under the Financial Stability Network's watchful eye. What separates banks from other financial entities is that only banks have legal right to accept public deposits (Finanstilsynet, 2016).

Savings banks and commercial banks are the two types of banks in Norway. Customers won't notice much of a difference between the two types of banks because of how they are owned (Finanstilsynet, 2016). Savings banks have the trait of being wholly or partially self-owned institutions, whereas commercial banks are set up as regular limited companies with shareholders as owners. Whereas Nordea is a commercial bank, Sparebank 1 and Sparebank 1 Vest are savings banks (Sparebankforeningen, n.d).

The objective of a savings bank, upon which this task is based, is to encourage savings by accepting deposits from a diverse range of depositors and to oversee the available funds for the organization. However, sponsors and other individuals do not have the right to profit from the enterprise beyond the return on basic fund certificates.
The guiding principle for lending activities of savings banks has been to utilize the district's own savings for the benefit of the district's business community. As a result, savings banks occupy a robust position as a financing source for economic activities in rural areas.
It is noteworthy that savings banks in Norway engage in considerably more active lending activities than their counterparts in most other countries. This trend can be attributed to the delayed development of commercial banks in Norway, relative to savings banks (Meinich, P., 2022).

### 2.5.5 ESG risk as part of credit risk assessment

In the case of the United Nations Environment Programme (UNEP), a key outcome of its bank working party was the creation of a "Statement by Banks on the Environment and

Sustainable Development" in 1992 (UNEP, 1992), which at the time was endorsed by 88 major financial institutions. After 1997, the statement was revised to include additional financial institutions. This served as the foundation for several initiatives and policies of a similar nature that were later established in favor of a more sustainable path for both the environment and the financial system (Coulson & Monks, 1999).

There are other connections between ESG and credit risk besides the greater chance of default risk brought on by environmental activities. According to Attig et al. (2013), the mechanism between firm responsibility and its credit rating standing is the reduction of the firms' perceived risk of financial distress, which may be accomplished through one of three possible channels:

1. The improvement of relationships with the firms' stakeholders.
2. The signaling of the firms' efficient use of internal resources and robust performance.
3. The reduction of potential costs associated with irresponsible firm behavior.

Strategic management is under pressure from shifting stakeholder expectations to expand its focus beyond profit maximization to incorporate ESG-related features. This could enhance a company's reputation, subsequently its connection with its stakeholders, and ultimately lead to the production of intangible assets. These are crucial for a company's financial performance and sustainability (Surroca et al., 2010). Long-term, this effect suggests improved profitability, a better reputation, cheaper borrowing costs, and eventually decreased credit risk.

Incorporating ESG considerations into credit risk assessment may be the future of credit risk management, as shown by empirical data, activities by reputable organizations, and support from investors and financial institutions throughout the world. Corporate managers have a huge issue, but given the growing demand from the stakeholders, they ought to take it seriously when planning their agendas. It follows that the inclusion of such criteria in analysis by credit rating agencies is not unusual (Gaganis, et.al, 2023).

S&P (2021) highlights several examples of how ESG credit factors can influence corporate analysis. For instance, higher carbon dioxide emission costs due to climate transition risk can lead to weaker profitability and debt service coverage ratios. Fines imposed for breaching pollution regulations can similarly impact profitability and liquidity. Entities experiencing a drop in demand and revenues due to social distancing rules, such as travel restrictions, may also see lower profitability due to health and safety concerns.

Moreover, aging population trends in advanced economies may lead to sustainable positive growth in certain sectors, such as old age homes, health care, and pharmaceutical companies, reflecting the importance of social capital in corporate analysis. A company's history of regulatory, tax, or legal infractions beyond isolated episodes or outside industry norms can create liability risk affecting its balance sheet or liquidity.

S&P (2021) also provides examples of how ESG credit factors can affect financial institutions. Climate transition risk, for instance, can impact a financial institution's risk position, particularly in cases where the institution is likely to face material charges due to the impact of climate transition risk on its loan and investment portfolios. Extreme climate conditions may also affect a financial institution's business position by weakening asset quality. Lending activities that are socially sensitive, such as high-interest payday loans, can lead to reputation and regulatory risk. Finally, litigation due to weaknesses in governance, risk appetite, or the control framework can create new risks not related to the credit quality of loans and investments, including money laundering or cyber risk, which may be reflected in a company's business position (Gaganis, et.al, 2023).

### 2.5.6 Performance

ESG considerations are becoming increasingly important for businesses' financial performance and success. A company's ability to effectively manage ESG issues is often a reliable indicator of its overall risk exposure and management acumen, which are critical factors in its long-term prosperity. Skillful management of ESG risks, adaptation to changing government regulations and consumer preferences, and the discovery of new markets or cost-cutting measures can help companies excel in ESG performance, leading to enhanced shareholder value (Compact, U. G., 2004).

Furthermore, good ESG performance is often seen as a sign of efficiency, with companies that perform well on ESG criteria also performing well on operational and financial criteria. They are attuned to changing market conditions, benefit from low production costs, and have motivated employees. According to Cai, L. and He, C. (2014), there is also a positive correlation between corporate environmental responsibility and long-term stock performance. Incorporating environmental factors into investment decisions can help generate returns by identifying companies whose environmental strengths are not yet fully valued by the market.

However, Eccles,R. and Serafeim, G. (2013) argue that there may be a negative relationship between a firm's ESG performance and its financial performance because of the costs associated with taking action, such as voluntarily reducing emissions. They suggest that the market will only reward companies that prioritize the most material ESG factors and come up with innovative approaches to address them. This would further increase the cost of implementing an ESG strategy, as detailed analysis would be needed to determine which companies would be the "ESG winners". Some practitioners also do not find a strong link between ESG signals and share price performance.

As Emerick, D. (n.d.) states, Companies worldwide are increasingly embracing ESG for a variety of reasons. Some of the most common reasons include:

*Better brand reputation:* Companies that express a commitment to ESG are often viewed as more ethical, reliable, and responsible by customers, which can lead to greater customer loyalty and a positive reputation in the market.
*Appealing investors:* Investors are placing more value on companies with strong ESG practices, and it is becoming increasingly common for these factors to be directly tied to financing and investments.
*Better employee retention*: Companies that prioritize ESG practices are more likely to attract and retain upper capacity, resulting in lower recruitment and turnover costs. It can also help reduce the trend of "quiet quitting."
*Regulatory compliance*: Governments around the world are introducing new regulations that require companies to adhere to certain ESG standards, making it critical for organizations to stay up to date on these rules.
*Increased profitability:* Companies that focus on ESG often achieve better operational efficiencies and cost savings, leading to higher profits over time. By creating sustainable business models, companies can also reduce their risk of being impacted by environmental disasters or social unrest.

Focusing on ESG efforts can also inspire companies to develop new products, collaborations, and business models that prioritize sustainability and social impact, leading to greater innovation, collaboration, and growth potential.

### 2.5.7 Challenges

Emerick, D. (n.d.) presents several challenges, including issues with data availability, quality, standardization, and the time and effort required to collect and analyze it. When ESG is not integrated into every organization, there is a lack of consistency and reliable data, making it difficult to compare companies across different sectors. Even when data is available, it is often of poor quality, making it challenging to use effectively, which Merker& Peck (2019) is also mentioning, true their overview of the challenges in the book.

Furthermore, without a globally accepted set of standards for measuring and reporting ESG data, comparing companies becomes even more challenging. Not all organizations prioritize the integration of ESG into their operations, as it can be time-consuming and resource intensive. Despite these challenges, the benefits of ESG investing are clear and offer significant advantages. As more companies integrate ESG into their operations and standards become more globally accepted, these challenges are likely to decrease. In the future, events such as the EU's meeting in 2030 to assess their climate and energy targets may further shift the integration of ESG into daily business operations. However, only time will tell how ESG will continue to evolve and shape the business landscape (Emerick, D., n.d.).

State Street Global Advisors conducted through their survey in 2017, that more than 50% of investors have difficulty in understanding ESG standards and terminology, which can lead to imprecise data due to the lack of clarity. However, if there were more navigable maps for ESG standards and frameworks, it would make integration and use easier and produce clearer data. This, in turn, would promote wider adoption and integration of ESG and increase awareness and understanding of the subject. As ESG becomes better understood as a core investment process, the concept of ESG products as distinct from other indexed or active products will fade away. Eventually, ESG will simply become the standard way of investing, applicable to all investment types. At that point, there will no longer be a need to differentiate between ESG and non-ESG securities (Merker& Peck, 2019).

# 3. METHODOLOGY

In this chapter the methodological approach of the thesis is explained. It will be considered how the thesis has progressed and various factors that have come into play, such as challenges, reflections and how it has generally proceeded with getting the interviews in place, choosing who will be interviewed and approving everything at Sikt.

## 3.1 Research design

When attempting to improve the sustainability of a company´s function, the question of where the focus should be relative to balancing profits with a larger sustainability effect arises. The necessity to strike a proper balance in economy and social and environmental goals. The structures of investment, as well as the viewpoints surrounding its development and operation, are also diverse and complex, with a significant and increasing importance placed on different aspects of the investment product, start time and eco-sustainability responsibility (Gilchrist, D.,2021).

### 3.1.1 Qualitative method

The focus of this thesis is on the integration of ESG considerations in the processes of banks. Given the density and nuance of this topic, a qualitative research approach was considered appropriate. While quantitative data can be useful in measuring specific aspects of bank processes, it may not capture the full range of factors that contribute to sustainable practices. Qualitative research, on the other hand, highlights the collection and analysis of non-numerical data, such as interviews and observations, which can provide a more in-depth and nuanced understanding of the research question (Bell et.al.,2022)

In this study, an exploratory research design was chosen to allow for a broad assessment of the topic, and the research question was framed as "How..." to encourage a range of answers and insights. This approach allows for a flexible process of data collection and analysis, which can lead to new insights and unexpected findings.

One of the challenges of studying sustainability in banks is the lack of standardization and regulation in this area. Qualitative research is well-suited to address this challenge, as it can capture the subjective perspectives and practices of different banks. By examining the experiences and perceptions of bank stakeholders, this study aims to shed light on the complex and multifaceted nature of ESG integration in banking operations.

## 3.2 Research question

The aim of this paper is to explore the impact of ESG regulations on the operation of banks, and to investigate the challenges they face in complying with these regulations. Given the increasing emphasis on sustainability in the business world, it is important to understand how banks are adapting to these regulatory changes and incorporating ESG considerations into their operations.

Specifically, this thesis seeks to answer the following research questions:

***How do banks integrate ESG into their operations, and what do they face in regards of following the regulations?***

As the inclusion of sustainable measures in companies becomes more widespread, it is essential to study how banks are navigating this complex and evolving landscape. By investigating their perspectives and experiences, this study can shed light on the opportunities and challenges of ESG integration in the banking industry. During this research, the initial research questions evolved as new and interesting factors emerged. However, the focus remained on understanding the impact of ESG regulations on the operations of banks and the challenges they face in meeting these regulatory requirements.

## 3.3 Data collection

### 3.3.1 Sikt

Since this research include interviews of several people in the banking industry, at the same time involving audiotaping of the interviewees voice, I needed to apply my research to NSD, which is now named Sikt. They ensure that data I have collected about the interviewees and personal data is processed, stored, and shared safely and legally, today and in the future. My application was approved by Sikt on 13th of March, and I could right after book meetings with desired interviewees for this research.

### 3.3.2 Challenges

The Sikt approval took a bit longer to process than expected, at the same time that sending out requests to conduct an interview with the various interviewees was more difficult than expected. This comes from the fact that several people do not answer the request, they take a long time to answer or that they do not have time to help due to many activities before the holidays. It has thus been somewhat time-consuming to get hold of the desired people due to several factors that occur. However, those I have interviewed in the end have been good key players for my research by taking the time to help with my thesis and answering my questions with much more detailed information than I could wish for, which created a very good insight into their work with integration of ESG.

### 3.3.3 Semi-structured interviews

This section presents the interviews and data collection process, along with a description of the interviewees. The selection of interviewees was a joint effort between myself and my supervisor, who utilized both the bank's platform and LinkedIn to identify suitable interviewees. The selected interviewees are individuals who work directly with ESG or have a close involvement with it in their daily work. In mid-February, interview requests were sent out while awaiting approval from Sikt. Although there was a delay in receiving approval, this allowed time for several of the interviewees to respond to the interview request. Once Sikt approval was obtained, a follow-up email was sent to all recipients, along with emails to other potential interviewees. During the interviewee selection process, numerous emails were sent out to potential interviewees, with some choosing not to respond or indicating that they were unable to participate due to heavy workload.

In total, there were conducted 4 interviews in the period from March 20$^{th}$ to April 21$^{th}$. The interviews were mainly performed through online meetings through Teams, since all the interviewees were in different parts of Norway, and it is less time-consuming for each part. Some interviews were shorter or longer but had an average length of 25 to 30 minutes.
All the interviews were audiotaped, and later were transcribed into a word document, to have a possibility to be more present in the interview and not note down every answer and question

during the interview. All the interviews were also taken in Norwegian since every interviewee were Norwegian. It was later transcribed in Norwegian and came around 9 500 words, that were later used for coding. Where it then was translated to English to help in the future under the analysis.

Since it was a semi-structured interview, it was easier to go away from the main questions to get more details around the theme and ask several extra questions. At the same time having a possibility to get examples of banks daily work and examples of different situation in their work process.

**Table 1:** Sample of informants

| | Gender | Position within the bank |
|---|---|---|
| Bank 1 | Female | Leader of Sustainability department |
| Bank 2 | Female | Leader of Fishery and Aquaculture |
| Bank 3 | Male | Leader of Sustainability committee |
| Bank 4 | Female | Leader of Credit department |

All the banks are a savings bank, that is located throughout in Vestland, Møre og Romsdal and Trøndelag. Since there were sent out a request to interview other banks, but they declined or didn´t get back to me, the interviewees were made of only savings banks It therefore made me to change a bit on the structure of the thesis, and also try to find a bit more of the role on savings bank and the community around them.

### 3.3.4 Interview guide

In Attachment 1, it is listed the interview guide. The interview guide was working as a structure for which question, I wanted to be answered by the interviewee and was helping to ask several follow-up questions if needed or the interviewee had possibility to go deeply into details and add examples, which gave me a bigger insight. Almost every question was answered during the interview and did help to get a better overlook of the banks standing point in their work with ESG.

### 3.3.5 Reflections

When sending out the interview questions to the interviewees, since everyone wanted to see the questions before the interview, to get a bit more prepared, which would also give me a much more in-depth answer on the questions, than being totally unprepared. Under the booking of a meeting in Teams, two of the interviewees got questions sent in an email, while two others were included in the Teams meeting. Then it occurred a problem with the sending the questions in teams, since the last interviewee, didn´t see the questions and therefore came unprepared. The interviewee did give me good answers, but they weren´t as detailed and fully as it was with the tree others. The follow-up question was though a good way to fill up the details I felt as missing.

## 3.4 Sorting and analyzing data

During the analysis of interview transcripts, it became apparent that there were several connections between the responses of all four interviewees on various topics. To facilitate the analysis process, a descriptive coding approach was used to sort and categorize quotes from the interviews. This allowed for easier access to specific categories of information from the interviews, making it easier to identify interesting responses to the research questions.

The use of descriptive coding helped to summarize the main codes and group them into appropriate categories. This approach was instrumental in gaining a deeper understanding of the data that was collected. Despite the time-consuming nature of collecting qualitative data, this method provided an opportunity for a more in-depth investigation of the research problem.
To gain a broader perspective and a more comprehensive understanding of the research topic, four overarching questions were developed and sent out as follow-up questions to each interviewee. Some questions required further clarification to obtain a more detailed response that addressed the specific research questions. This process helped to uncover more detailed and informative responses that contributed to the richness of the data and the insights gained from the study.

## 3.5 Limits and reflections on Methodology

In this part, there will be a closer look at the quality of my research, assessed through reflection related to reliability and validity, where, in conclusion, assessments related to the thesis will be explained.

### 3.5.1 Reliability and validity

When it comes to reliability, it's all about trustworthiness, or what can be relied on to trust of the thesis´ process. It was the intention when the interview guide was created that replies from the four interviews could be compared. Additionally, it was planned for the interviewees to be free to respond to the questions regardless they considered proper. The participants' limited viewpoints may end up being negative, but I believe they were an important aspect of the job that allowed them to express their thoughts and ideas. While it would be reasonable to assume that the answers would mostly be positive and in the bank's favor, there were also a number of instances where negative opinions and interpretations were expressed. These instances allowed for a wider perspective and a more complete understanding of the situation, further demonstrating the interviewees' candor and openness to the questions posed.

Validity refers to whether the data eventually answers a certain inquiry and supports a particular conclusion. The fact that I have selected to interview an expert in each bank's ESG department offers me cause to hope that my research will be strengthened as a result of their knowledge, insight, and interpretation. The answers of the interviewees were compared, and the results were discussed with my supervisor to determine whether this was something that should be taken further and added follow-up questions to the interviewees, if there were any that should be double-checked in or look for more details for sure as a possible result.

### 3.5.2 Ethical considerations

According to Sikt's criteria, a letter of information explaining the research's goals, participants' rights, and privacy was delivered to each project participant before the interviews were conducted. A consent form that had to be signed prior to the interview in relation to participation and audio recording was also sent out at the same time and is included as Attachment 2. Every single informant volunteered their assistance and submitted a permission. The general interview guide, which is included in Attachment 1, was supplied to the informants ahead of time to maintain openness throughout the process.
In order to prevent remarks from being linked to specific people, the initiative will also apply secrecy and anonymize the informants.

# 4. Findings

In this section of the thesis, I will examine the findings. The findings are based on the analysis of interviews and additional questions that were sent via email to the interviewees after the interview. The informants' responses reflect their own thoughts and opinions, which in turn largely reflect their respective bank's position. As previously stated, the interviews are anonymous. The findings highlight the numerous regulations and requirements banks must follow, as well as how they integrate sustainability and skill development inside. Additionally, the ESG's integration into bank operations and how it affects them.

## 4.1 Regulatory Compliance

Given the sheer volume of regulations to be observed and understood, it is reasonable to assume that banks must prioritize and determine which ones are necessary. It has been discovered specifically which regulations the banks adhere to in their day-to-day operations and what they emphasize. During the interviews, some instances were cited where the interviewees believed that there was no centralized requirement or regulation that they were obligated to follow. However, it was noted that several banks reiterated the Norwegian Accounting Act's §3-3c, GRI and NFRD. These are intended to offer recommendations for sustainability reporting and divulge the data to other regions.

> *"The bank adheres to the Accounting Act's §3-3c and follows Euonext's recommendations for social responsibility reporting by listed companies. Our reporting is based on the GRI standard, and we maintain our own GHG accounts. Additionally, we report climate risks in accordance with TCFD and practice environmental stewardship in compliance with Environmental Lighthouse requirements. We are also signatories of the Principles for Responsible Banking (UNEP FI PRB) and report annually according to their framework. Our reporting aligns with NUES guidelines, and we participate in various working groups under the auspices of Finans Norge to stay informed and keep pace with developments. To remain proactive, we receive quarterly updates from partners, with whom we collaborate to understand upcoming regulations' consequences and their implications for the bank. We strive to translate these regulations into actionable items and identify any risks or opportunities that may arise."* ***(Bank 1)***

Bank 1 provides a comprehensive overview of the specific regulations and standards that they adhere to in their ESG work, as well as their ongoing efforts to further improve in this area.

> *"We are subject to NFRD, Accounting Act §3-3c, where we are obliged to report on sustainability consultancy. We have also had a sustainability report over several years, in addition to Sustainability´s online library, so it also reports on our sustainability work and thus we also have GRI and TCFD, which are the two primary ones we use. We are also subject to the EU taxonomy and report there. As well as the fact that the new CSR directive has now arrived, we will also be subject to the reporting laws that will come there." **(Bank 2)***

Bank 2 deliberates that they also follow fairly similar regulations, which have been in force for some time already, but also considers the CSR directive that came in recently.

> *"NFDR does not currently regulate us, but we are preparing for when it does. We adhere to GRI reporting standards and continue to manage climate accounting using GRI methodology. We are now working to understand the implications of taxonomy and several EU rules for our firm. We make an effort to understand which requirements and outbound deliveries come to us and which criteria satisfy our clients as we are a bank and a financial player. We are currently attempting to comprehend several EU directives as well as taxonomy and their implications for our organization. Since we are a bank and a financial participant, we thus attempt to understand which requirements and outbound deliveries come to us and which requirements satisfy our clients." **(Bank 3)***

> *"The Norwegian Financial Supervisory Authority monitors us closely, so we have to be good at doing what they say, for example, we had our own supervision by the Norwegian Financial Supervisory Authority two years ago(...)And then you have something called the EBA, it also says that you must consider ESG factors that are now significant. Besides that, we adhere to the GRI reporting standards and use for example PCAF to estimate the CO2 in our lending portfolio" **(Bank 4)***

In general, it looks like GRI is the regulation the banks are concentrating on now and will include new regulations and requirements when this is implemented by the Norwegian Financial Supervisory Authority in the future. While they are following what they are following now, everyone is trying to get an overview of the situation and what may happen in the future and how they will possibly go about dealing with this.

## 4.2 Sustainability work within the bank

Exploring the ways in which banks incorporate sustainability into their work and the motivations behind it is an intriguing topic. Additionally, it is important to investigate any potential risks that may hinder the integration of sustainability, such as regulatory requirements, and whether customer demand plays a role in the banks' sustainable practices. It does demonstrate that banks are attempting to incorporate sustainability into their operations within the institution. Like every other risk that is assessed as part of the bank's risk management process, sustainability is taken into account.

> *"Of course, what we are working on is to constantly incentivize restructuring and change that will both rig the customer and the bank in relation to those changes(...)And we know based on that we will deliver our ratio and in the long term we must know what kind of our activities that come from sustainability-defined activities and what not. We want as large a share of that as possible, and then we must rig the product, services and consulting tools, so that we get the largest possible share of our customers into that world."* ***(Bank 1)***

> *"So, it has become a very integrated part of the work, where you always think and assess sustainability in the risk assessments you make, but also in the areas of opportunity.*
> *For example, when you talk to a customer and they are considering investing in a new product, and it is always asked whether you have taken into account the various sustainability elements in that assessment, and if they have not, then we recommend that they perhaps should think alternatively."* ***(Bank 2)***

This demonstrates that sustainability has become a regular topic in the bank's conversations with customers, indicating that it has been fully integrated into their operations wherever feasible. Additionally, sustainability is considered as part of the bank's risk assessment, just like any other risk that is evaluated during this process.

> *"It was a clear social sustainability motivation that led to the bank being established in the first place, but we are also measured on sustainability work also by the fact that this is an increasing financial risk, climate risk, increasing financial risk, we know that all sectors of society in Norway and others will probably have to adapt now to such a low-emissions society. And in that lies beyond the risk we are talking about and future opportunities, so it is also a driver for us then."* ***(Bank 3)***

> *"There are three, it depends on who you ask, if you talk to the account manager, is it demand from customers, if you talk to those from Credit, is it regulation, if you talk to Risk is it risk management.*
> *(...)We live off risk and then we must have control over risk as well, for us it is very important."* ***(Bank 4)***

Bank 3 and 4 looks at ESG inclusion of both risk, customer demand and regulations. However, there are different opinions on what governs this depending on which department in the bank you ask, as this also has a big impact, which is understandable, due to their work position. As previously mentioned, it is included in the bank's risk assessment like everything else that is assessed as a risk in this process.

## 4.3 Skills development of employees

It is frequently necessary for every employee to expand their skills when new professional fields are introduced inside a company or bank. As a result, I learned how savings banks address ESG staff training considering that ESG is a global trend in the financial sector that surpasses bank and nation boundaries. And discovering that the use of various learning tools makes it easier for employees' skills growth to remain high, even if they are new hires or employees who work closely with one another within the industry.

> *"All employees undergo sustainability training, while those who occupy line-oriented positions (including personal market, corporate market, and asset management) receive additional ESG knowledge. We have our own ESG guidelines for credit and*

*placement activities, and we also have policy documents covering several different areas." **(Bank 1)***

Based on this, we can assume that all employees have received fundamental ESG training, with greater skills development for those who work more closely with ESG, such as line-directing employees who require their own ESG guidelines for customer meetings.

> *"We have integrated a unit throughout the bank, where we have a sustainability department with a manager and employees who work primarily with sustainability, but we also have individual employees and individuals who work in different divisions who follow up on sustainability in the various units."* ***(Bank 2)***

Bank 2 has built upon this approach and formed a distinct department within the bank that specializes in sustainability. Additionally, select employees who handle ESG-related tasks will receive corresponding training.

> *"Firstly, we have developed a basic training package for all employees in the group(...)We are also working to ensure that we have authorized advisers who follow a formal training course via the authorization scheme".* ***(Bank 3)***

This bank adopts a similar approach to Bank 1 by providing a training program for all employees, while advisers are required to follow a formal course upon authorization. However, this bank has explored different ways of training all employees by organizing competitions and games that allow them to compete against each other within the bank. This is intended to generate more excitement during the learning process, resulting in enhanced learning outcomes.

> *"We have trained employees for that, so it has been skills boost for everyone, in addition to having sustainability officers, there has also been collaboration with another company, where they selected various customer advisors and my own team to further their education and gain skills in ESG. At the same time there is training through a competence portal and all new employees get training."* ***(Bank 4)***

Similar to Banks 1 and 3, Bank 4 offers a training program for all employees and provides opportunities for skill development for those who deal with ESG in customer interactions. This implies that employee training is primarily conducted for all staff members, allowing them to gain a fundamental understanding of the ESG spectrum, regardless of whether they utilize it in daily customer meetings or other job responsibilities. Therefore, significant emphasis has been placed on enhancing the skills of both existing and new staff to ensure that everyone in the bank possesses the same level of knowledge. Even if employees do not work directly with ESG, they have a thorough understanding of the topic.

## 4.4 Integration of ESG in the bank´s product and services

When integrating ESG into the bank's products and services, several factors are at stake. Relating to how to do it, where they want to implement it, and why. Generally speaking, this is integrated by taking into account the local, social, and environmental context as well as rules that have an impact on and are involved in the activities of the bank. Although it makes sense for banks to see the integration of ESG into their products as a promising option, they must be careful not to put themselves or their customers in unnecessary risk. All banks will eventually be compelled to conform to the guidelines that are coming in a harder way than it is today, thus it is crucial for the banks to be somewhat prepared for this.

> *"We want as large a share (...) as possible, and then we must rig the product, services and consulting tools, so that we get the largest possible share of our customers into that world. Because if we get it, we get good and positive funding for the bank, and if we get funding for the bank, we will be able to provide better product offers to our customers, which in turn means that we can have a better profit for our owners and the savings bank side is owned in part by the community, then it is also about what should be given back to the local community."* ***(Bank 1)***

> *"You are (...) required in relation to the regulations and requirements that you must in a way deliver in relation to the requirements in reporting and we also see this from the bank on the funding side in how we found ourselves and there will also be a stronger requirement from our investors(...)*
> *I also see that we have scope due to the influencing opportunities we have, such that the biggest movers in the bank are in their own house in relation to their own*

*operations. Where the biggest expenses are in our exception pile with the customers we want to finance, so we have things we can influence the most to reduce our own emissions, which will fall under the Scope 3 thinking on indirect emissions. And then it is also that we have the opportunity to both influence our customers towards making more sustainable choices and it remains to create opportunities."* ***(Bank 2)***

In contrast to those that have already begun incorporating ESG into their business, banks want to prepare themselves for the rules that have arrived, as well as bring the consumers on board and drag the smallest customers along with them.

*"Yes, it is clear that no one will get applause for following Norwegian law and being compliant with the regulations, it "goes without saying" in a way. Our motivation is thus about being more than being compliant, with a regional perspective, business perspective, such a sincere care perspective, a historical perspective behind our work."* ***(Bank 3)***

*"But it is more that we must be able to see with new lenses, how we are to assess the customers and help them not become ESG losers before it is too late. In a way, it is an opportunity to ensure the quality of the output portfolio, because that is what we strive for."* ***(Bank 4)***

It is reasonable that banks view the incorporation of ESG into their products as an outstanding possibility, but they must also be cautious not to overburden themselves or their clients with risk. It is important for the banks to already be somewhat prepared for this as all the banks will ultimately be required to adhere to the rules that are coming in a tougher manner than it is currently.

## 4.5 Reaction to the integration of ESG

It is logical that there may be both positive and negative opinions concerning a newly presented issue. Finding out the responses the banks have received when this has come up was also surprising. Even if it requires some trial and error, they want to continue working on this to see if they can succeed. and even if not, everyone agrees with the shift, they have to keep up with the fashion.

*"The vast majority have understood that this is not how the internet works. They tell us that they understand it, but they also think that it is a bit more challenging as sustainability is a big term and is challenging to understand. There has also been a great talk about the environmental dimensions, until the Transparency Act itself was also introduced. Because it changed the focus a little, but there is a lot of focus with some on the environmental part. But we have worked hard on that. And we are concerned with learning, because a lot of it is understanding that it is a journey, where you have to start and you must not be afraid of where you are today and not be afraid to find out: Where are we, where are we going, what do we need to do and how to get started. If not, the "Sustainability Troll" will be a bit prohibitive."* ***(Bank 1)***

*"We first noticed that it was immature, that there were new terms and we understood that it was important but did not quite show how to take it. And it has also been a journey, and we now see that most people are positive about it and see it as a competitive opportunity that is more about strengthening their business strategy by including sustainability."* ***(Bank 2)***

Both banks indicate that although this is uncharted territory, it is something they want to achieve and understand. They want to work on this further, even if this involves trial and error, and see if they succeed.

*"As a savings bank, we must try to think like this, that no one is at the goal until everyone is at the goal, so we are concerned that the smallest companies will succeed."* ***(Bank 3)***

*"So, the customers are very different, how sophisticated they are, some are clever and turn around and think it's a business opportunity, some think "oh..." it really depends on how professional the company is."* ***(Bank 4)***

At the same time, it is indicated that several people may be a little worried about having to change their business strategy and some may not believe that sustainability can create and change something for the better. It thus shows what bank 3 says: No one has reached the goal until everyone has reached the goal.

## 4.6 ESG risk

The interviewees were questioned about their opinions about ESG risk, including whether they believed it to be a problem or an opportunity for the bank. Therefore, it was determined what they thought about include ESG in other bank risks. Now that it is more closely tied to the sustainability mentality, it may be necessary for a new person to make difficult decisions. If you choose not to try, you will soon suffer the consequences of your choice. If they don't keep up with the changes today, companies run the danger of losing clients, becoming less profitable, raising costs, developing a bad image, and being less competitive in the market.

> *"It is a new risk that has not been thought of in the same way. But ready with transition risk and technological changes, trends, regulatory changes, are nothing new. So, we have dealt with that all along. It is more now that it is so linked to the sustainability mindset, so that for someone who is new, and you may have to make tough choices, and if you do not try, you will be punished for it in not too long. I think that there is a greater consequence now than it was before. "**(Bank 1)***

> *"Absolutely, we have implements, as I said, that sustainability is part of the risk assessment we do. But we must also assess both new and current customers in relation to Credit risk and it is certainly useful that one assesses both credit risk on quantitative and potential risk it may be for current risk." **(Bank 2)***

> *"For us there is an increasing financial risk, if we do not keep up with the times now, we lose customers, profitability, increase our costs, experience a weak reputation, lose competitiveness in the labor market, pay more for the funding that the bank needs, the list is very long. So, it is a risk, but then it is like ying and yang, once you understand the risk then you have the opportunity to understand what business opportunities exist. So, it's a bit like two sides, I think." **(Bank 3)***

> *"By all means we want to avoid losses, that is priority no. 1. The ESG risk is there regardless of whether you have managed to identify it or not, the best thing is to identify it, because when you work with investments and loans, then you have to you think about what is the main risk and what is the second biggest risk etc. it is so*

*incredibly essential to actually be able to identify the biggest risks because then you know about it".***(Bank 4)**

Based on what all the banks mention, there is largely the same understanding of managing the bank's risk and using this in the bank's development and the possibility of developing new products and services.

## 4.7 The social and regional focus on ESG

Given that the banks are savings bank, numerous interviewees underlined during the interview how vital it has always been for the bank to be socially responsible and to concentrate on local communities and regional development. I thus looked at the relationship between the social and regional emphasis and how the bank views ESG, particularly the social component of ESG. Despite having different approaches to and discussions of ESG and social responsibility, the banks all have a commitment to social responsibility and sustainable development in their local communities. Their close links to the community and usage of earnings for socially beneficial projects that raise the standard of living there.

*"It's true that the bank has always placed a high value on social responsibility, and one essential aspect of that has been to support the sustainable development of the community in which we live. However, if we are to address the three views of sustainability, economics, environment, and social circumstances, this is obviously tied to us. When we discuss ESG, we frequently discuss risk components. The creation of a desirable region has long been a focus of ours, and the interaction between these three viewpoints is crucial. In recent years, we've also given historically marginalized groups more attention and backed a variety of initiatives to make sure they, too, have a feeling of belonging in the region. It aims to promote variety, decrease inequality, and eliminate outsiders. In addition, as a financial institution, we strive to be a bank for people of all ages and socioeconomic backgrounds. We have advisors who lecture on personal finance for youth while also teaching courses on online/mobile banking, effective digital services for the elderly, and retirement clubs. Our dispersed office setup enables us to be active in several tiny local areas."* ***(Bank 1)***

> *“Although they are essentially two sides of the same coin, we make a distinction between ESG and social responsibility. For our part, when discussing risks and possibilities in our business areas, we discuss ESG; but, when discussing how the bank would use its social dividend, we discuss social responsibility.”* ***(Bank 3)***

> *“We take our obligation to the community seriously, and this is reflected in the social component. We are teeming with people, organizations, and volunteers, and we use the money we produce to improve the area. Local residents own close to 40% of the bank. As a result, a fair portion of the profit is also used for initiatives that benefit society. We improve the quality of life for all of us in central Norway by providing community benefits to organizations and worthwhile initiatives.”* ***(Bank 4)***

The banks share a commitment to social responsibility and sustainable development in their communities, but they differ in how they approach and discuss ESG and social responsibility. Bank 1 emphasizes the interconnectedness of the economic, environmental, and social aspects of sustainability, while also focusing on marginalized groups and providing financial education. Bank 3 makes a distinction between ESG and social responsibility when discussing risks and possibilities versus using the bank's social dividend. Bank 4 highlights their strong ties to the community and use of profits for initiatives that benefit society, improving the quality of life for residents in central Norway.

## 4.8 Would the bank have positioned itself more sustainably if it were not for regulation?

I identified how the banks would have positioned themselves if regulations didn't exist. Now that we are aware of how the banks are positioned in relation to the utilization of various instruments and regulations when it comes to ESG. In addition, if it weren't exactly that, how fast it would have grown more sustainable. It is not always possible to obtain the same posture without criteria and regulations, which act as a sudden jolt to motivate optimal alignment. If it hadn't received the regulatory adjustments, it would have very likely occurred considerably more slowly. And every bank strives to improve both its operations and outcomes in order to satisfy its clients.

*"I think it would probably have happened much more slowly if you hadn't got the regulatory changes, if you hadn't got the EU Green deal and Taxonomy and everything that comes with it."* ***(Bank 1)***

*"That's a good question, (..), we started early, but it was also because we saw that there was a trend that was starting to tighten....you also see that you have to make the right choices and take into account the driving forces that make that we manage, but as a business, to be able to do that, you have to have financial profitability and that is an important aspect to take with you, whether it is voluntary or a requirement, it turns out that you need both carrots and whip."* ***(Bank 2)***

*"I think that every bank will in a way optimize its results and its operations, in every way make its customers satisfied, but then it is like… what is about the climate and environment dimension, that every dimension here, is a type of knowledge which has not been very widespread in the financial industry, in my view then. And it is clear that taking climate risk on board, if you do not know it is a risk, I think it might not have happened by itself."* ***(Bank 3)***

*"In terms of risk, yes. Because it will force its way in due to more extreme weather, challenges for input factors, production, transport, the fish in the sea, sea temperature, ocean currents and much more! But yes, ESG is a risk and there are many risk factors here."* ***(Bank 4)***

Based on what each bank has said about the bank's position if there were no regulations, it seems that everyone agrees that it would have taken longer to get to the same place as today. It is thus visible that the regulations show a correct way to go which is necessary to reach the goals set for 2030 and future goals that will be set up in 2030 for further development. It is otherwise difficult to point out a specific point of view for each bank, as they all operate differently, but towards the same goal. There can thus be different steps on where the banks are located today and where they could have been otherwise. in the end, it otherwise looks like everyone believes that ESG had been included in the end, even if this had taken much longer.

## 4.9 Interviewees´ thoughts on ESG

When it comes to the interviewees' personal thoughts, they may express a variety of opinions regarding ESG, depending on how they view it, how it impacts them, how they can move this ahead, and what they hope to accomplish by going one step farther with ESG. They do quite a bit, are in a position to influence, and have an edge over commercial banks in terms of sustainability as a saving bank.

> *"I think it's exciting and I think we achieve quite a lot and that we are in a position where we can influence and that we have an advantage as saving bank in relation to the commercial banks in relation to sustainability because we have had the region's constructive thinking from the start."* ***(Bank 1)***

> *"I think it's incredibly exciting, first of all I think it's important to focus on it"* ***(Bank 2)***

> *"My motivation for working with sustainability is really about three things. Firstly, I am very affectionate of my children, secondly my workplace and thirdly in the region I live in and if I am going to make a difference both for my children, my workplace and the region, then we must succeed with a green transition. I also work to increase my own knowledge, build competence and so I have no motivation linked to being a moral point finger or engaging in moralism here, but it is about inspiring, raising awareness and actually facilitating that we make smart choices each day that plays with the future".* ***(Bank 3)***

I think this was very well said, as ESG was created to take a step further, while at the same time thinking about the generation after us, who will live off what we have and the consequences of what we have will affect their way of life. Thus, if our way of life has the opportunity to lower the consequences for the next generation, it is an opportunity we should take. We must always remember that we are not the last generation on this planet.

> *"My own thoughts that. 1. That this ESG narrative is something we can mature in. Not just to talk about this and that. 2. that we manage to preserve biological diversity, the insect thing is extremely important, I personally think it is very defiant if we are not*

*able to take care of our planet, with CO2 and biological diversity. Because we depend on food.”* ***(Bank 4)***

Overall, we can see that everyone has a fairly similar mindset when it comes to ESG both in the workplace but also elsewhere in society. This also shows that the people who work with ESG have a desire to succeed in their work with ESG in the financial industry so that everyone can succeed and feel good. Although this is only a small part of the bank's work and their influence is a small part of what a person can help on their own towards a greener world, this is a step in the right direction.

# 5. Discussion

## 5.1 Chapter introduction

Through my thesis, I have uncovered a variety of new understandings and knowledge that shed light on the ways in which banks are integrating ESG considerations into their operations. Not only has this contributed to a deeper understanding of how savings banks in Norway are approaching sustainability and ESG integration, but it has also helped to tie the gap between theoretical approaches and practical implementation. My findings are the result of a thorough review of both academic literature and semi-structured interviews with experts within the field. By exploring the connections between theory and practice, I have been able to present a more nuanced and detailed understanding of the complex workings of ESG in the banking sector. These findings have given me a broader perspective on the role of ESG in the banking industry and have allowed me to get a more complete picture of how these concepts are being applied in practice.

## 5.2 Social and regional focus

My research has discovered that the savings banks' focus on ESG has been driven by their commitment to supporting the local community and creating a positive impact on the society. These banks recognize that their profitability is essentially linked to the well-being of the communities they operate, and they have made it a priority to contribute to their growth and development.

What is particularly noteworthy is the way in which these banks have gone above and beyond to include and support marginalized groups within their communities. One example of this is Bank 1, which has made it their mission to educate young people on personal finance, an area that is often overlooked in formal education. Additionally, they have taken steps to ensure that elderly members of the community are not left behind in the digital age, providing training and support for those who may struggle with new technology.

By focusing on the needs of both young and old, these banks have demonstrated their commitment to creating a more inclusive and supportive community. Through their dedication to ESG principles, they are not only building stronger relationships with their customers but also contributing to a more sustainable and flourishing future for all.

## 5.3 Sustainability work in the bank

One of the interesting insights that emerged from my research is that a particular bank was founded with a clear social sustainability motivation. This unique origin story has driven the bank's continued commitment to ESG principles and has set them apart from their peers in the industry. As I researched deeper into how ESG is integrated into banking operations, I found that all banks share similar goals and motivations. The key objective is to avoid large losses, which requires banks to be responsive to customer demands, manage risk effectively, and comply with relevant regulations.

However, rather than viewing these factors as constraints, banks have embraced them as opportunities to innovate and develop new products and services. By integrating sustainability considerations into their work, banks have been able to leverage ESG principles to create new value for their customers and to differentiate themselves in a highly competitive market. The outcome of this is that banks are not just meeting regulatory requirements or responding to customer demands. Instead, they are proactively seeking out ways to create sustainable value for all stakeholders, while also driving innovation and growth in the industry. The result is a more robust and resilient banking sector that is better equipped to meet the challenges of the future.

## 5.4 Integration of ESG in banks products and services

Through my research, I discovered that there are varied perspectives on how ESG is integrated into banking products and services, even within different departments of the same bank. However, one bank stands out by highlighting the importance of taking a fresh perspective and prioritizing customer needs to truly integrate sustainability principles into their work.

Across all banks, there is a strong desire to prepare for future regulations and increased demand for sustainable solutions. By proactively addressing these challenges, banks are not only improving their market position, but also enhancing their reputation in the local community and among customers. Moreover, banks are also seeking to encourage customers to adopt more sustainable practices by offering quality-assured products and services that prioritize sustainability, rather than simply meeting regulatory requirements. This approach is motivated by a range of factors, including regional considerations, business needs, social responsibility, and historical perspectives.

Overall, integrating ESG principles into banking operations is not just about compliance, but is also an opportunity to drive innovation, improve customer relations, and enhance sustainability across the industry. As banks continue to embrace these principles, they will be better positioned to create long-term value for all stakeholders and to meet the challenges of the future.

## 5.5 Reaction on the integration

In my research, it became obvious that all banks have recognized the importance of sustainability as a key theme that is here to stay. While sustainability has been discussed for many years, banks have increasingly realized its significance and impact on their operations. However, some banks acknowledge that sustainability is still a relatively new concept and that there is room for further growth and development in this area.

Despite this common recognition, there are differences in how banks are positioned in terms of their approach to sustainability. While some banks have made significant strides in integrating sustainability principles into their operations, others are still in the process of learning and catching up. However, the overall trend is towards greater awareness and commitment to sustainability, as banks recognize its importance for their long-term success and the well-being of the broader community.

## 5.6 Skills development of employees

Learning is a continuous process, and as new topics and areas are integrated into banks, it becomes necessary to increase the skills of employees. From my findings, it is obvious that all banks recognize the importance of skills training for their employees, both in general and specifically for those who work closely with ESG and customers. To achieve this, the banks use various training methods, such as games, competitions, and training portals. Additionally, employees can deepen their understanding of ESG by completing courses on the preferred topic.

Interestingly, one bank goes above and beyond by taking employees out for higher skills development, specifically those who work primarily with ESG. This shows the bank's commitment to providing its employees with the necessary tools and knowledge to effectively engage with customers on ESG-related matters. Such initiatives not only benefit the employees but also the customers and the bank, as they increase employee engagement, customer satisfaction, and the bank's reputation.

## 5.7 Regulation

While regulations and requirements are important drivers for banks to integrate ESG/sustainability into their operations, it's also important to note that some banks go beyond compliance and aim to exceed regulatory requirements. Some banks states that they have integrated ESG/sustainability into their strategy and operations because they believe it's the right thing to do for their customers, employees, and the environment. At first glance, it may seem that banks are subject to the same regulations and requirements. However, not all regulations are mandatory yet, so banks have some leeway in choosing what to focus on before mandatory requirements are implemented. In Norway, it appears that banks mainly follow §3-3c of the Accounting Act, which aligns with GRI. Some banks also incorporate TCFD and NFRD, depending on recommendations from the Financial Supervisory Authority, which regulates these matters in Norway. While looking through all banks´ yearly reports, I could find that they have also set ambitious sustainability goal. By doing so, they aim to contribute to the accomplishment of the UN Sustainable Development Goals and the Paris Agreement on climate change.

Furthermore, it's worth mentioning that some banks have also been proactive in backing for stronger ESG/sustainability regulations and standards. For example, several Norwegian banks have signed the PRI, which commits them to aligning their business strategies with the UN Sustainable Development Goals and the Paris Agreement, and to using their influence to encourage clients and stakeholders to do the same. By doing so, these banks are not only complying with existing regulations, but also pushing for stronger regulations and standards that can quicken the transition to a more sustainable economy.

## 5.8 ESG risk

Risk management is a critical aspect of banking, and I wanted to explore whether banks consider ESG factors in their risk assessments. My findings indicate that ESG is, in fact, included as a risk factor in the bank's risk assessment process. This suggests that ESG is not just an ethical consideration but also a business imperative that can impact the bank's bottom line. In today's world, it's crucial to be mindful of ESG risks to avoid reputational damage, regulatory penalties, or even financial losses. Thus, banks must continuously monitor and manage their ESG risks, just like any other risk, to remain competitive and profitable. By doing so, banks can identify and seize opportunities that arise from integrating ESG considerations into their products, services, and business operations.

## 5.9 Banks´ position without regulation

It is fascinating to consider the impact that sustained attention on sustainability has had over time. Without the constant conversation around it, it is likely that the integration of sustainability into banking practices would have been slower and less comprehensive than it is today. Through my research, I have had the opportunity to gain insight into the thoughts of experts on this topic. One bank I interviewed acknowledged that they believe sustainable change within the bank would have happened at a much slower pace if it were not for the regulations.

However, it is important to note that all the banks I studied have adapted to the trend towards sustainability, regardless of their individual views on the topic. This underlines the importance of keeping pace with the evolving needs and expectations of customers and society at large. By doing so, banks can continue to adopt support, protect their reputation, and stay competitive in an ever-changing landscape. The impact of this is evident not only in the success of individual banks, but in the overall progress towards a more sustainable future for all.

## 5.10 Interviewees´ own thoughts on ESG

While the interview interviewees' views on ESG were not directly included in the research question, it is worth noting that their responses were overwhelmingly positive. There is a widespread agreement that ESG is a crucial step in the right direction for the benefit of both people and the planet. It is increasingly recognized that the current generation bears a significant responsibility for their impact on the planet, and that this impact will shape the way of life for future generations. Therefore, the integration of ESG considerations into business practices is essential to ensure a better habitat and a sustainable future. This shift towards sustainable practices is also being driven by a growing recognition among consumers, employees, and local societies of the need for sustainable development, which is further increasing the demand for ESG-compliant businesses.

# 6. Conclusion

Based on my research, it appears that saving banks in Norway place great importance on incorporating ESG factors into their daily operations since they are dedicated to helping the community and maintaining their good social effect. Banks have made it a point to support the growth and development of the communities they operate in because they understand how closely their profitability is related to the welfare of those communities. Additionally, catching on to environmental trends makes them more appealing to both present and potential clients.

ESG concepts have been adopted by banks as an opportunity to innovate and create new products and services. They aim to stimulate industry innovation and growth while also producing value that is sustainable for all stakeholders. As a result, the banking industry has grown stronger and more resilient, making it better prepared to handle the problems of the future. The banking industry currently does not offer many products and services with a sustainability focus, but green loans, green funding, green reporting, and green standards have provided a starting point and have raised the bar for banking from a decade ago.
It is to the credit of the United Nations Global Compact report from 2004 that the financial sector was advised to take ESG considerations into account while conducting analysis, asset management, and trading activities.

Different banks have different approaches to sustainability; some have made substantial progress in incorporating sustainability concepts into their daily operations, while others are still catching up. However, as banks realize its significance for their long-term prosperity and the welfare of the larger society, the general trend is towards increasing knowledge and dedication to sustainability.

Additionally, it is evident that banks are interested in environmental, social, and governance issues but are impatient for stricter and more detailed ESG laws to make the process of integrating ESG into bank operations simpler. They are unable to manage many frameworks, standards, and regulations at simultaneously since there are now too many of them.  It does provide a beginning point for how the process works, giving banks a better idea of what the future holds. It is also natural that the future will be slightly more restrictive, but time will reveal how banking will change.

Different banks have different approaches to sustainability; some have made substantial progress in incorporating sustainability concepts into their daily operations, while others are still catching up. However, as banks realize its significance for their long-term prosperity and the welfare of the larger society, the general trend is towards increasing knowledge and dedication to sustainability. Additionally, it is evident that banks are interested in environmental, social, and governance issues but are impatient for stricter and more detailed ESG laws to make the process of integrating ESG into bank operations simpler. They are unable to manage many frameworks, standards, and regulations at simultaneously since there are now too many of them.
It does provide a beginning point for how the process works, giving banks a better idea of what the future holds. It is also natural that the future will be slightly tighter, but time will reveal how banking will change.

Overall, incorporating ESG principles into banking operations offers a chance to spur innovation, better client interactions, develop staff skills, and promote sustainability across the sector. Banks will be better equipped to produce long-term value for all stakeholders and to handle the challenges of the future as long as they continue to uphold these values. Consequently, it is interesting to see what the financial sector, clients, and the planet might expect in the future.
Comparing the present with how the industry will change as a result of the ESG integration in banking will also be useful for future research. Additionally, this will provide a clearer understanding of the present situation, its effects on the banks, and their current viewpoints. This will benefit more individuals in the future because it may be altered at any time to be positive or negative.

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# 8. Attachments

## 8.1 Attachment 1: *Interview Guide*

- Has your bank become subject to ESG regulation? How has the regulation affected your day-to-day work?

- If the bank is not yet subject to regulation, how does the bank/your department are getting ready for upcoming regulatory changes?

- Has the bank hired additional people to do the ESG compliance work or has the bank retrained staff to do the ESG work?

- What is driving the sustainability efforts of the bank – client demand or regulation or risk management?

- Is ESG an opportunity to create and innovate new products or is it mostly compliance?

- What new products and services does the bank offer in connection with ESG?

- How do customers react to the ESG regulation?

- How has the green/sustainability shift affected your day-to-day work?

- Do you find compliance with ESG regulation burdensome?

- Do you believe that the ESG/sustainability shift is helpful in terms of managing the bank's risks? What about opportunities?

- What about your colleagues? Do they – especially bank staff that works closely with clients – believe that ESG is helpful in managing the bank's risks and opportunities? Or do they see it as burdensome compliance only?

- Do you think the banks would voluntarily become more sustainable if it weren't for regulation?

- What are your own thoughts of ESG?

## 8.2 Attachment 2: *Information to the interviewees*

Vil du delta i forskningsprosjektet:

***Hvordan banker følger ESG/bærekrafts regulering, og hvilke utfordringer og muligheter står de ovenfor, som følge av dette?***

Dette er et spørsmål til deg om å delta i et forskningsprosjekt hvor formålet er å *se hvordan ESG blir innlemmet i banker*. I dette skrivet gir vi deg informasjon om målene for prosjektet og hva deltakelse vil innebære for deg.

**Formål**

Hvordan følger bankene ESG/bærekrafts regulering, og hvilke utfordringer og muligheter står de overfor i forhold til å følge denne reguleringen? Inkludering av bærekraftige tiltak i bedrifter er kommet for å bli og det er dermed interessant hvordan bankene håndterer dette i sin virksomhet. Jeg tror derfor at dette spørsmålet kan være interessant å undersøke for å se hvilket perspektiv ESG-regelverket gir bankene. Hvilke bærekraftige effekter oppstår og hvordan håndteres dette for å balansere økonomi og sosiale og miljømessige mål.

Jeg skal skrive en masteroppgave om akkurat dette og ønsker å ta semi-strukturert intervju for å dekke en rekke emner og spørsmål angående virkningen av ESG på firmaet. Er det noe

spesielt som skiller seg ut som dårlig eller positivt? Er det en spesifikk arbeidsteknikk brukt for å overholde ESG-forskriften? Hvilken innvirkning har dette på firmaet i forhold til det som har skjedd tidligere uten samme fokusnivå? Hva er de mulige konsekvensene for bedriften i fremtiden? Tror de ESG er noe bra for bedriftens økonomi?
Måten bankene bruker ESG til å annonsere og innlemme det i produktene sine, samt hvordan forbrukere reagerer på det, er noe som er verdt å undersøke mer.

Informasjonen jeg samler opp under intervjuene vil bidra til å besvare de ulike problemstillingene og hjelpe å støtte dette mot relevant litteratur.

**Hvem er ansvarlig for forskningsprosjektet?**
Norges teknisk-naturvitenskapelige universitet, Institutt for internasjonal forretningsdrift er ansvarlig for prosjektet.
Der jeg, Anita Borodako, jobber i lag med min veileder Ainur Begim på dette prosjektet.

**Hvorfor får du spørsmål om å delta?**
Du har blitt utvalgt som til dette intervjuet, ved innhenting av informasjon fra bankes nettsider/ har blitt nevnt som en potensiell person man kan intervjue ved hjelp av min veileder.
Jeg ønsker å intervjue mennesker som jobber innenfor ESG-fagfeltet i de ulike bankene.

**Hva innebærer det for deg å delta?**
Intervjuet tar for seg en 10-12 spørsmål som vil bli spurt underveis angående det oppgitte temaet, som vil være behjelpelig med min masteroppgave. Intervjuet vil bli holdt digitalt/ fysisk ut ifra hva som passer best for deg som skal bli intervjuet. Det vil bli tatt lydopptak av dine svar for å kunne notere ned alt, uten at noe informasjon vil komme på avveie og jeg vil ha en fullstendig besvarelse på mine spørsmål.
Lydopptaket vil bli lagret til det hele har blitt transkribert inn på et dokument som vil stå for lagring av besvarelsene fra hver enkel deltaker, og slettes umiddelbart etter fullføring.

**Det er frivillig å delta**
Det er frivillig å delta i prosjektet. Hvis du velger å delta, kan du når som helst trekke samtykket tilbake uten å oppgi noen grunn. Alle dine personopplysninger vil da bli slettet. Det

vil ikke ha noen negative konsekvenser for deg hvis du ikke vil delta eller senere velger å trekke deg.

**Ditt personvern – hvordan vi oppbevarer og bruker dine opplysninger**

Vi vil bare bruke opplysningene om deg til formålene vi har fortalt om i dette skrivet. Vi behandler opplysningene konfidensielt og i samsvar med personvernregelverket.

- Behandlingsansvarlig for lydopptakene vil være Anita Borodako
- Lydopptak vil bli lagret på en låst enhet, uten noen form for sensitive opplysninger, da de vil bli oppkalt etter Bank 1, Bank 2, Bank 3 osv.
- Ferdig transkribert dokument vil lagres på en låst enhet uten noen form for sensitive opplysninger, da de vil bli oppkalt etter Bank 1, Bank 2, Bank 3 osv.
- Veileder for oppgaven vil kun ha tilgang til å se besvarelsene fra dokumentet.

Hver deltakers besvarelse vil bli publisert i min masteroppgave, uten noe form for gjenkjennelse av selve deltaker.

**Hva skjer med personopplysningene dine når forskningsprosjektet avsluttes?**

Prosjektet vil etter planen avsluttes 15 mai 2023. Etter prosjektslutt vil datamaterialet med dine personopplysninger anonymiseres. Da hvert datamateriale vil kun ha skriftlig besvarelse fra intervju og vil bli oppkalt etter Bank 1, Bank 2, Bank 3 osv. Datamaterialet vil ikke bli slettet i inntil 3 år, for eventuell videre forskning. Dette vil bli lagret i min masteroppgave, samt min veileder vil ha muligheten til å ha innsikt i dette for eventuell videre forskning.

**Hva gir oss rett til å behandle personopplysninger om deg?**

Vi behandler opplysninger om deg basert på ditt samtykke.

På oppdrag fra *Norges teknisk-naturvitenskapelige universitet, Institutt for internasjonal forretningsdrift* har Sikt – Kunnskapssektorens tjenesteleverandør vurdert at behandlingen av personopplysninger i dette prosjektet er i samsvar med personvernregelverket.

**Dine rettigheter**

Så lenge du kan identifiseres i datamaterialet, har du rett til:

- innsyn i hvilke opplysninger vi behandler om deg, og å få utlevert en kopi av opplysningene
- å få rettet opplysninger om deg som er feil eller misvisende
- å få slettet personopplysninger om deg
- å sende klage til Datatilsynet om behandlingen av dine personopplysninger

Hvis du har spørsmål til studien, eller ønsker å vite mer om eller benytte deg av dine rettigheter, ta kontakt med:

- Norges teknisk-naturvitenskapelige universitet, Institutt for internasjonal forretningsdrift,
  Prosjektansvarlig: Ainur Begim, ainur.begim@ntnu.no, 73559372
- Vårt personvernombud: Thomas Helgesen, thomas.helgesen@ntnu.no, 93079038

Hvis du har spørsmål knyttet til vurderingen som er gjort av personverntjenestene fra Sikt, kan du ta kontakt via:

- Epost: personverntjenester@sikt.no eller telefon: 73 98 40 40.

Med vennlig hilsen

*Ainur Begim* *Anita Borodako*
(Forsker/veileder)

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# Samtykkeerklæring

Jeg har mottatt og forstått informasjon om prosjektet *Hvordan banker følger ESG/bærekrafts regulering, og hvilke utfordringer og muligheter står de ovenfor, som følge av dette?* og har fått anledning til å besvare spørsmål. Jeg samtykker til:

- ☐ å delta i intervju
- ☐ at mine personopplysninger lagres etter prosjektslutt, for eventuell videre forsking

Jeg samtykker til at mine opplysninger behandles frem til prosjektet er avsluttet

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(Signert av prosjektdeltaker, dato)

NTNU

Norwegian University of
Science and Technology