

## Our requirements as to sustainable lending and investment

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## **1 RESPONSIBLE-MINDEDNESS AND OUR STANCE ON SUSTAINABILITY, ETHICS AND CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE**

One of our fundamental values is responsible-mindedness. This term implies an extended responsibility for how our actions affect the environment, people, jobs and management of assets now and in the future. We employ a caveat in our credit policy and our investments that ensures that as a general rule we do not engage in lending or investment outside Norway's borders, and the companies to which we grant loans and in which we invest are subject to Norwegian law which in many respects is just as stringent or more stringent than international conventions. However, we have chosen to apply a guideline and special ambitions to sectors in which we may indirectly become involved through our clients'

subsidiaries and investments. We want our principles to be familiar internally and externally, and we want clients and businesses that we finance in sectors and areas that may pose a risk of breaching our principles to be familiar with them.

## **2 SUSTAINABLE INVESTMENT AND LENDING**

It is particularly important for us as a regional bank to assume a responsibility for sustainability in investments. We are duty bound to do what we can to support the UN's sustainability goals, and we are concerned that companies in which we invest or to whom we loan money should take account of themes such as responsible management of water resources, forests, mineral extraction, responsible oil extraction and refinement of petroleum products, and fishery resources.

We endorse the principles of the UN-supported PRI - Principles for Responsible Investment - in all our own investments, and we use our influence to ensure that they are complied with in joint investment decisions too.

It is not enough for a company to endorse guidelines and rules in this area. The company must also be able to document its observance of fund management rules.

Everyone who is involved in lending to business entities or in decisions related to the bank's or the Sparebank 1 Alliance's investments is required to be conversant with our principles. These principles guide what we lend money to, what we invest in and how we conduct ourselves and exert influence in joint investment decisions by companies in which we are not in a dominating position ourselves.

In addition to assessing new customers, new investments and loan renewals, we will have in place a procedure to ensure a review on at least an annual basis for advisers involved in lending and investment decisions with regard to our stance on ethics, social responsibility, corporate governance and sustainability.

### **2.1 GUIDING PRINCIPLES FOR ETHICS, SUSTAINABILITY, CORPORATE GOVERNANCE AND SOCIAL CONDITIONS AT THE COMPANIES**

Many of the minimum requirements and the expectations we hold are regulated under Norwegian law, and in the case of loans to small businesses and individual investments in Norway we simplify our controls by requiring companies to provide formal confirmation of their compliance with the Norwegian law, requirements as to disclosure of ultimate owners and requirements with regard to employees' rights and anti-money laundering efforts. We concurrently make an extra assessment of whether companies are involved in one or more industries that are specifically touched on in our ethical principles, or of whether it is possible that we are funding cross-border activity or activities in a value chain where there is a known risk of breach of our principles as regards ethics, sustainability, corporate governance, the environment or social conditions. All advisers and staff responsible for investment decisions are required to be familiar with this procedure, and each has an independent responsibility to document their controls and control measures in cases where a particular geographical or industry risk, or particular risk factors related to the business concerned, are present. We shall not finance or invest in such businesses without at minimum checking the company's attitude and its documentation, in annual reports and in conversations

with the company's management, of work done to reduce the risk of violation of our principles.

We desist from investing in, and do not loan money to, companies that are not open about their ownership structure, and that do not have in place procedures to ensure that they disclose in their annual reports how much tax they pay in all countries in which they operate. We observe the Wolfsburg principles as a minimum standard in areas such as international tax and trade where stringent Norwegian regulatory requirements have not been established. The bank has established strict criteria for efforts to combat money laundering and concealed ownership and transactions suited to money laundering. As a financial institution we are also under an extended obligation to report all transactions that could be suspected of being part of a money laundering operation, and have established ongoing procedures to identify such transactions. Nor will the bank itself provide advice related to investments made for the purpose of tax evasion, and it cannot distribute services from other advisers with the intention of instigating tax evasion or money laundering.

The companies we finance or invest in must not be involved in corruption or in actions likely to promote corruption or to prevent corruption being brought to light. The companies are required to confirm that they are not so involved, and we are required to confirm that we are not aware of circumstances indicating that their self-declaration is not correct. For major listed companies and international companies a minimum requirement is that they maintain a conscious awareness of corruption. Another minimum requirement on major companies we invest in or lend money to is the presence of satisfactory control and steering systems that activate a response upon suspicion of corruption, whistleblowing procedures for internal notification of suspicion of corruption and a clear-cut requirement for observance of the same criteria by their suppliers and sub-suppliers.

Cross-border businesses financed by us or in which we hold an ownership interest must as a minimum requirement comply with UN requirements on ethical investment (UN PRI). Further, we expect the companies to follow up on their suppliers and investments in relation to the UN principles on protection of human rights (PRR: the Protect, Respect and Remedy framework). SpareBank 1 SMN has set its own goals for emissions and carbon footprint, and is concerned that companies we finance or invest in should promote compliance with the Montréal Carbon Pledge so that global emissions are reduced, and that companies should seek to compensate for their carbon emissions through the Gold Standard certification process. Companies that invest, have subsidiaries or have suppliers in countries whose legislation is less stringent than international principles and agreements, have a particular responsibility for setting their own requirements which at minimum comply with international principles and agreements.

As a bank that primarily funds small Norwegian businesses, we have special responsibility when it comes to advising and increasing businesses' awareness of the themes of ethics, sustainability, corporate governance and the environment. Our goal is to be a positive contributor, and a valuable sparring partner in order to increase awareness of these issues among small businesses which possibly do not look upon themselves as part of a larger global value chain. We will use our strong regional position, and our attractiveness as a bank, to play our part by exerting our influence through the channels at our disposal.

For all lines of business we apply an absolute requirement of compliance with human rights, and that employees are guaranteed job security and co-determination. We cannot lend money

to businesses that violate these principles at international subsidiaries, or break Norwegian law in this area. In following up on our clients and our ownership interests we will:

- 1. Not take owner positions or provide loans to companies that fail to abide by our principles, and include caveats regarding follow-up and consequences in the event of any deviation (covenants) in funding where the companies concerned operate in industries, countries and regions posing a particularly high risk*
- 2. Exert pressure on customers and companies in which we invest to ensure that they maintain sound procedures and processes for making appropriate ethical, environmental and sustainable choices, and for influencing companies in which they hold owner positions through active owner management*
- 3. Require documentation that customers have taken action on circumstances that violate our principles*
- 4. Take the consequence of deviations that are not acted on by not renewing or prolonging loans, or by winding down owner positions.*

## **2.2 SPECIFICALLY ON COMPANIES IN WHICH WE TAKE OWNER POSITIONS AS A RESULT OF RESTRUCTURING**

Situations may arise in which we, as a bank, take possession of a business that we would not have chosen to invest in. In such situations we assume the same responsibility as a manager by actively using our ownership position to influence the company to abide by our principles of sustainability, ethics, corporate governance and corporate social responsibility. We must see a positive development in the company's willingness to abide by our principles if we are to maintain our owner position. Owner positions in companies that violate our principles are subject to special follow-up involving a half-yearly report to the management body until the position is wound down.

## **3 OUR SPECIFIC REQUIREMENTS BEYOND THOSE OF NORWEGIAN LAW AND INTERNATIONAL AGREEMENTS AND PRINCIPLES**

### **3.1 CONTROVERSIAL ARMS PRODUCTION, PORN INDUSTRY AND TOBACCO INDUSTRY**

We perceive legal lines of business such as the porn industry, tobacco industry, parts of the arms industry, along with employment conditions that conflict with international principles, to be in breach of ethical norms. In the case of the arms industry this applies to companies that produce arms which in normal use violate fundamental human principles. We dissociate ourselves from cluster weapons and anti-personnel mines and from companies that develop and produce central components for nuclear weapons, biological weapons and chemical weapons. We also require companies to have in place a policy to ensure that no export of arms takes place to areas where human rights violations are known to occur, or to countries where owing to widespread corruption or civil war there is a large likelihood of arms ending up in such areas. Further, the company must not profit from arms sales to countries where arms investments are at the expense of meeting the population's primary needs. Such areas and countries shall at minimum be defined as countries coming under the arms embargo adopted by the UN, EU or USA.

### **3.2 EXPLOITATION OF CRISES OR VULNERABLE INDIVIDUALS**

We also have a clear-cut policy of not exploiting crises, dependence or special vulnerabilities of individuals or communities. We accordingly want suppliers distributed by us to have in place a policy in the areas of gaming and online gambling, responsible practices for lending to vulnerable households and a policy related to follow up of companies engaged in gross overpricing of much needed goods, medicines and equipment in connection with crisis situations. Nor do we wish to contribute to or finance companies involved in gross overpricing of drugs used to treat serious illnesses or conditions.

Equally, companies must not profit from war, disasters or conflicts. This entails not providing services or supply contracts which, based on normal vigilance, they should have realised could have contributed to violation of international conventions on the treatment of civilian populations or prisoners of war. We also dissociate ourselves from goods supply contracts and services that may be associated with occupations that are in breach of international law and illegal, an exception being in the case of goods and services needed to secure the civil population in such areas.

### **3.3 GENDER EQUALITY AND CHILD LABOUR**

We expect companies to respect people's rights to equal treatment and dignity. This entails not discriminating against individuals or groups and not providing unequal opportunities based on age, gender, religion or sexual inclination. We also expect employers who take on under-age employees to assume a responsibility above the minimum requirements prohibiting child labour, but also to acknowledge that this is a vulnerable group with rights under the Convention on the Rights of the Child. The employer must facilitate education opportunities. Education is among the most important means for levelling out disparities, and access to education is a right for children and young people.

### **3.4 MINING OPERATIONS**

A guiding principle for mining operations is to minimise encroachments on the environment, and, irrespective of local legislation, to have in place plans for cleaning emissions and for restoring the landscape and repairing interference with nature after closure of a mine. We also require run-off and environmentally hazardous waste to be properly handled, and that employees should have good working conditions posing low health risk. Encroachments on the environment must also be carried out in such a way as to ensure that indigenous peoples' rights and opportunities to continue their traditional way of life are not obstructed unnecessarily. Companies are expected to enter a dialogue to find such solutions. Moreover, caution must be shown in areas where accidents or external impacts may lead to irreparable damage to the environment. We dissociate ourselves from mining operations that cause entire mountains to be blown away, from extraction of uranium ore and from opencast mining in oil sand / tar sand.

### **3.5 COAL POWER, COAL EXTRACTION AND OTHER CONTROVERSIAL ENERGY PRODUCTION**

We do not finance the extraction of coal, or coal power. Nor do we invest in companies involved in coal extraction and coal power. We apply the same principle to all companies that are involved in controversial energy sources such as nuclear power and require hydroelectric power plants to comply with the seven principles of the World Commission on Dams.

### **3.6 SUSTAINABLE AGRICULTURE AND FORESTRY**

For forestry and agriculture we require operations to be set up in such a way that land and water resources are not depleted, and that access to water and wildlife corridors should be established. Indigenous people's rights to coexist with organised agriculture should also be safeguarded. It is important to secure access to grazing land, moving of livestock and access to water sources.

For forestry and other industry using timber as raw material we require exploitation of resources to be sustainable, and we do not wish to intermediate mutual funds with ownership interests in industries that fell primeval forest or are engaged in logging in a manner that does not ensure sustainability. Biofuel must be produced in such a way as to satisfy the RSB standard.

Crops must be sustainable, and enterprises that produce crops requiring a particularly high consumption of water, that deplete the soil or that have any other highly negative impact on the local ecosystem must have a clear strategy on how these externalities are to be remedied if the enterprise is not sustainable, and is unable to document measures to achieve sustainability. Known challenges relate, for example, to the production of nuts and plant oils/palm oil.

Steps must have been taken to prevent run-off and depletion of the topsoil by establishing uncultivated zones adjacent to water sources, sea and rivers.

Agriculture and forestry must ensure measures to minimise spraying, they shall use only chemicals having the least impact on the environment and shall work to reduce chemical use.

We require that – unless more stringent local legislation has been introduced – animal transportation should be limited to a maximum of eight hours, that the use of very cramped cages and cubicles should not occur and that animals should enjoy the rights expressed through the Five Freedoms.

### **3.6.1 Protection of water**

Before a company starts operations in an area posing challenges in terms of access to water, or where encroachment can be expected to have a major impact on water levels in rivers and on the water table, the company shall conduct an analysis of possible consequences. A company that consumes substantial water resources shall not be established in areas and regions with a known water shortage, and where such establishment conflicts with the right of access to clean water for the local population.

## **3.7 PROTECTION OF NATURAL DIVERSITY**

We endorse requirements for protection of threatened plant and animal species and of areas featuring on UNESCO's World Heritage List, and expect companies operating in areas that jeopardise protected plant and animal species to give consideration to them and minimise encroachments on the environment. We do not invest in, or finance, companies that are involved in trade in animal and plant species that violates CITES' requirements or that threatens stocks of red listed species.

## **3.8 FISHERIES**

Responsibly operated fisheries are among our most important renewable resources, and we expect companies not to profit from fishing techniques that hit threatened species and fish stocks. We also expect the companies to comply with requirements set in quotas and licences to ensure sustainable management. At the same time we expect companies in the fisheries to participate in collaborations on joint management of fish stocks, and to come into line with such regulation. We also expect the fish processing industry to seek to purchase raw materials from responsibly minded suppliers, and to contribute to collaboration on environmental certification.

### **3.9 GENETICALLY MODIFIED ORGANISMS**

We also have a fundamentally negative attitude to genetically modified organisms, and businesses that use raw materials from agriculture where use of GMOs is widespread are required to inform consumers of the proportion of raw materials used that are of uncertain origin. We wish companies to urge their suppliers, or to take the initiative themselves, to reduce the proportion of raw materials that are based on genetically modified plants and organisms.

### **3.10 ENVIRONMENTAL TOXINS**

Companies that are involved in production processes, or that produce products that contain environmental toxins, must take steps to contribute to collecting and in a responsible manner destroying residues and waste from the products in order to reduce the content of environmental toxins by finding alternative production processes, and in order to reduce by other means the negative environmental impact of their production.

### **3.11 FISH FARMING**

As regards the fish farming industry, we expect fish food producers to work to increase the proportion of plant-based raw material in fish food, and that fish food from marine resources should be from sustainable sources. We also expect fish food producers to do their utmost to minimise the carbon footprint of their operations and transport of raw materials, and to impose requirements as to the emission-reducing measures on their suppliers. Furthermore, we are concerned that fish food producers should be open about the proportion of their raw materials that are from genetically modified organisms, and we expect the companies to work to reduce this proportion. The fish farming industry also has a responsibility for its impact on local biotopes and its pollution of surrounding areas through discharges of organic waste and impact on the density of parasites and occurrence of fish diseases. Furthermore, irresponsible fish farming may lead to the escape of fish which in turn could threaten local fish stocks through interbreeding or through destruction of spawning grounds. Responsible fish farming companies take an active position on their impact on local biotopes, spread of contagion to local fish stocks, use of medicinal products and escape of fish. We expect the companies to work actively to reduce such negative secondary effects on their local environment, and not to exploit weaknesses of local legislation in their quest for higher profits at the expense of their responsibilities. We expect the companies, in their annual reports, to air these issues and to describe their active endeavours to achieve improvements.

### **3.12 SUSTAINABLE FINANCIAL INDUSTRY**

For the financial industry and finance companies, and also bond investments, we apply an extended concept of sustainability which takes into account usury and exorbitant profiteering

in connection with crises. This entails critical assessment of companies involved in financing individuals with payment problems, a requirement that customers should be capable of understanding terms and conditions, and a particular focus on credit sales and credit provision in developing countries. Credit providers and financial institutions are required to comply with local rules and guidelines on consumer protection, and, in the absence of such local regulation, to abide by international standards. Furthermore, financial institutions should desist from financing projects and businesses that violate fundamental requirements as regards human rights, or that damage the environment or violate indigenous people's rights.

### **3.13 INCREASED PROPORTION OF CERTIFIED DEBT AND GREEN BONDS**

We want bonds to be labelled under certification schemes for sustainability, and mutual funds that invest in bonds to be a driving force for environmental labelling and certification of loans in relevant certification schemes as a means of ensuring a focus on the effort to raise environmental standards.

### **3.14 PROPERTY COMPANIES AND PROPERTY DEVELOPMENT**

We expect companies that invest in property to have in place procedures to ensure reduced energy use and certification of buildings to reduce emissions. We also expect corporate documents to include an environmental account and to set a goal to reduce climate emissions, and major groups that manage property to support the development of certification schemes to ensure reduction of such emissions, such as ISO 14001.

Conflicts related to land ownership and existing tenants' or residents' interests may arise in the development of property. We expect particular caution and responsible-mindedness to be shown as regards the balance between profit and the need to safeguard the interests of the inhabitants of the land or dwellings if they constitute a vulnerable group.

### **3.15 TRANSPORT COMPANIES AND AVIATION**

As regards transport companies and aviation, we expect companies to actively seek technology, and to invest in projects, that reduce emissions and negative environmental impacts.

### **3.16 ENERGY PRODUCTION AND CLEAN ENERGY**

We expect all segments and businesses to take a proprietary view of climate-related challenges and to have in place a policy on the use of clean energy and energy saving to reduce their carbon footprint. Companies in the energy production field are expected to endorse international agreements on promoting production of clean and green energy, and to clearly describe their role and their particular responsibility for the environment in their management documents.

### **3.17 REPORTING REQUIREMENTS**

We expect actors in the timber industry, including paper, pulp and wood products either to be certified under the FSC's value chain requirements, or to work actively to fulfil requirements for such certification. We also expect all international/multinational companies to report sustainability under GRI G4 or equivalent reporting guidelines. Companies with substantial

influence on forest through felling or other development should report their carbon imprint in relation to the requirements of the FFD project.

#### **4 SPECIFICALLY ON CORPORATE GOVERNANCE, MONEY LAUNDERING AND CORRUPTION**

We expect companies to maintain zero tolerance of corruption in their own business, and in companies they invest in, and in the event of suspicion of corruption we require full disclosure from the company and to participate in the investigation of the matter. All companies must be open about their ownership structure, and about transactions between the company and its management.

Employee rights: SpareBank 1 SMN cannot finance or invest in companies that do not respect employees' right to organise, and that set themselves against trade union organisations or resort to reprisals against trade union representatives.

#### **5 SPECIFICALLY ON EMPLOYEE RIGHTS**

Companies must respect their employees' union rights, working conditions must be secure, and we do not accept discriminatory practices or use of child labour. They must have established requirements on maximum working hours, and ensure that their employees receive a living wage. We are also concerned that companies should not profit by exploiting vulnerable workers such as refugees and labour immigrants. In the absence of local legislation, maximum limits must be set for working hours. Responsibility for employees' rights also applies to sub-suppliers, and the company must take reasonable and proper steps to ensure this.

##### **5.1 FOLLOW UP**

At least once a year, and next time in April 2018, the status as regards documentation of compliance with anti-money-laundering rules, requirements as to openness, ethics, corporate social responsibility, sustainability and corporate governance at all companies in which we hold ownership positions, shall be reviewed. In addition, a review shall be undertaken of what action has been taken to make necessary improvements to procedures and processes.

All our employees shall on an annual basis review our policy on sustainable and ethical investments and be aware that in all credit matters and investment decisions in international companies or risky segments, we expect an account of how compliance with our principles is assessed, and what control measures and sanctions have been established to respond to breaches.