

# The business



## Retail Banking

Greater corporate social responsibility and more personal customers.

**SpareBank 1 SMN leads the market both in real estate agency and banking services for the retail market. In 2020, 37 per cent of all dwellings sold in Central Norway were sold by a real estate agent from EiendomsMegler 1 Midt-Norge. And 28 per cent of all mortgage borrowers at the turn of 2021 were customers of EiendomsMegler 1 Midt-Norge. Despite the enormous strain inflicted on the world by the Covid-19 pandemic, 2020 proved to be a good year for SpareBank 1 SMN with increased market shares both for the bank and the real estate agency.**

Once the lockdown of society was an established fact on 12 March 2020, all resources were directed at giving customers good advice while at the same time devising solutions to help people through the crisis.



*"The period has seen a large influx of customers worried about income loss, investments and failing ability to service loans. Our most important responses have been mortgage payment holidays and advances of unemployment benefit. Good information and advice through the year have been at centre-stage. All in all we have, in conjunction with our customers, tackled the coronavirus pandemic well."* These are the words of Nelly Maske, executive director, Retail Banking.

SpareBank 1 SMN was the first to offer advance payments of unemployment benefit along with mortgage payment holidays to customers hit by the consequences of Covid-19, such as dismissals and layoffs. About 8,500 borrowers applied for mortgage payment relief. However, the volume of mortgages with forbearance at the turn of 2021 was down to about a third of the level in effect after 12 March. The demand for advances of unemployment benefit was smaller (200 applicants), but was highly appreciated since it took some time for the authorities to put their own arrangements in place.

### **2020 – Better everyday finances and more money for housing**

Deposit growth of 17 per cent pertinently illustrates customers' lower spending on consumption, experiences, travel and the like. More people are spending a larger share of their income on housing, refurbishment and mortgage repayment. Moreover, substantial growth is noted in sales of recreational properties with sales of cabins up by as much as 40 per cent. This is an apt picture of how 2020 developed.

About 500 new mortgage customers joined the bank each month in 2020. An important factor behind this good trend is SpareBank 1 SMN's agreement with the LO (Norwegian Trade Unions Configuration). The group anticipates continued high growth in urban areas with a particular focus on Trondheim and Sunnmøre, and expects the positive trend to continue in 2021.



Kjetil Reinsberg, CEO of EiendomsMegler 1 Midt-Norge AS, describes 2020 as a special year for house sales with a 'reverse' sign.

*"The year was impacted by Covid-19 and restrictions but, for house sellers, market conditions were surprisingly favourable", he states.*

Norges Bank lowered its base rate to 0 per cent at an early point in the crisis. A natural consequence was very low mortgage interest rates. As soon as the shock of the first wave of infection abated, the entire region experienced high activity in the housing market. The upshot was an unprecedented volume of house sales in Central Norway in 2020, accompanied by rising house prices. On average, houses in Trøndelag were sold at prices 6 to 7 per cent higher than in 2019. The pace of house sales was also higher in 2020 compared with previous years.

SpareBank 1 SMN launched the financing product 'tryggere boligbytte' ('safer and securer house purchase') in 2021 together with EiendomsMegler 1 Midt-Norge. The object is to provide house sellers with a more flexible, and cheaper, arrangement that provides them with favourable mortgage terms in the period when they have two dwellings on their hands. This enables more borrowers to buy before selling, which makes for a well-functioning housing market in Central Norway.

*"This is a good example of One SMN. The bank offers favourable financing solutions which our colleagues at the real estate agency also communicate to borrowers. In sum, this encourages more people to buy a new house or flat before selling their existing one: a safer and securer purchase/sale process for the borrower, a healthier housing market and a larger number of new mortgage borrowers for the bank,"* says executive director Nelly Maske.

Through personal and good advice, a highly accessible customer call centre whose aim is to find a solution upon initial contact, and continual refinement of digital services, the bank promotes good everyday finances for people in Central Norway. 2020 also saw the launch of a legal services facility in collaboration with Justify. This service enables customers to enter into agreements such as cohabitation contracts and to set up future power of attorney and wills in a flexible and inexpensive manner.

Furthermore, SpareBank 1 SMN aspires to increasing the proportion of saver customers to 80 per cent by 2023 – chiefly by getting non-savers to start saving, and small savers to save more. In 2021 the bank can look back on a formidable increase in mutual fund saving and investment, and a gratifying increase in saving among young people. Of particular note is the 50 per cent increase in sales volume compared with previous years – taking into account the uncertain situation brought about by the Covid pandemic and other external factors.

### **2021 – A group with wind in its sails**

SpareBank 1 SMN assumes and expects good activity, a well-functioning housing market and continued low interest rates in 2021.

The group estimates strong growth in lending to retail borrowers in 2021. At the same time somewhat lower deposits are expected as a result of more normalised consumption. The patterns will depend on the effectiveness of the vaccination programmes and on how the Covid situation pans out over the course of the year.

Strong relations with people and local communities have been the group's most important competitive edge for almost 200 years. These relations will be further reinforced once the intra-group collaboration gains strength and scope through the banking and estate agency operations under the project One SMN.

While local presence is important, customers also expect SpareBank 1 SMN to be at the forefront of the evolution of digital services. The development of intuitive, user-friendly services providing an improved customer experience is accordingly given added priority by simplification, speed and accessibility along with overview and control. Through One SMN the group will also have a greater focus on advisers with particular expertise in their respective fields.

A broad range of green products has been developed for the group's retail customers in the past year, such as green mortgages – the bank's most reasonably priced mortgage. Through 2020 SpareBank 1 SMN has also worked together with the Trondheim-based company Ducky on visualisation of carbon footprints in the internet bank, based on the individual's consumption. Over the course of the first half of 2021, carbon footprint visualisation will be rolled out to all SpareBank 1 SMN's retail customers. The aim of visualisation is to encourage the individual to change his or her habits and make more sustainable choices, through green banking products as well as consumer habits. Work on sustainability labelling of green mutual funds also progressed in 2020, with market launch taking place at the start of 2021.

These are SpareBank 1 SMN's green products for the retail customer:



Ambitions for 2021 are substantial, both at Retail Banking in SpareBank 1 SMN and at EiendomsMegler 1 Midt-Norge.

*"We have the wind in our sails. Our intimate knowledge of the property market in Central Norway is unique. Not only in terms of traditional house sales but also rental brokerage and agricultural property. Our objective is that at least 50 per cent of house purchases taking place through us should be financed by SpareBank 1 SMN,"* says Kjetil Reinsberg, CEO of EiendomsMegler 1 Midt-Norge AS.

Nelly Maske, executive director of Retail Banking, has a similarly offensive stance. *"We intend to create a shared culture, an even greater understanding of customer needs, and to coordinate more of our services and customer advice,"* she adds.

<b>Retail Banking</b>	<b>2020</b>	<b>2019</b>
Deposits	47.5 bn	41.6 bn
Loan	129.1 bn	119.4 bn
No. of customers	245,697	226,422
No. of FTEs	369	353
Profit before tax	1,093 bn	1,270 bn

<b>EiendomsMegler 1</b>	<b>2020</b>	<b>2019</b>
No. of properties sold	7,164	6,652
No. of FTEs	227	230
Profit before tax	52 m	1 m

## Corporate Banking

The strategy of keeping a cool head has attracted more customers

**Thanks to our clear-cut local presence with 61 branches and our head office in the region, and employees that are part and parcel of our local communities, SpareBank 1 SMN has stood by businesses in Central Norway through another crisis. With more customers at year-end than prior to the Covid-19 pandemic, 15,000 corporate clients and 11,000 accounting clients now have access to banking and accounting services under the same roof in the region's leading finance house.**

With almost 200 years of service behind it, and as the region's leading finance house, SpareBank 1 SMN holds a position that carries an obligation. As in previous crises, the strategy this time this time too has been to keep a cool head.



*"2020 has been a brutal year for business and industry in Central Norway. We have never lost our focus on what is decidedly most important for us – to stand by our customers through an extremely demanding period for many businesses. Where competitors pull back, we maintain our belief in businesses and local communities. This is a stance that we resolutely bring with us into 2021."* These are the words of Vegard Helland, executive director of Corporate Banking and Arne Nypan, managing director at SpareBank 1 Regnskapshuset SMN.

They have both turned the crisis to account to bring in more customers. Over the course of 2020 the group recruited 1,444 new businesses as banking clients and 641 new businesses as accounting clients.

Lending to businesses in Central Norway increased in 2020 by NOK 5.6bn. SpareBank 1 SMN was the first bank in the country to grant loans through the government loan guarantee scheme, and during the year just over NOK 500m was granted by this means. SpareBank 1 Regnskapshuset SMN has in addition provided customers with guidance and assistance in applying for support or compensation from the government authorities.

### A complete finance house

At SpareBank 1 SMN, businesses in Central Norway have access to all manner of financial expertise, products and services they require. All subsidiaries and business lines were linked far closer together in 2022 to make life simpler for Central Norwegian corporate clients.



*"The group's just over 1,600 employees possess competence and experience that benefit our customers. And now we are organising our business with a basis in the customer's needs. When you contact a member of SpareBank 1 SMN's staff, you gain access to all manner of services in banking, finance, estate agency and accounting",* says Arne Nypan, managing director at SpareBank 1 Regnskapshuset SMN.

Since its establishment, Regnskapshuset has developed into one of the country's largest providers of accounting services. Since 2007 alone, more than 50 local

accounting firms have been acquired. This now assures the company's presence from Rørvik in the north to Lillehammer in the south. Following three further purchases made in 2020, the strategy is now to a greater degree one of organic growth.

SpareBank 1 Markets, SpareBank 1 Kapitalforvaltning and SpareBank 1 Finans Midt-Norge – along with banking, accounting and estate agency services – make SpareBank 1 SMN a complete finance house.

### **Sustainability as a competitive advantage**

In December 2020, Trondheim municipality chose SpareBank 1 SMN as its new main bank. For the first time the bank entered a tender competition in which sustainability had the same weighting as price. The agreement is estimated to be worth a total of NOK 17m and covers payment solutions, deposit terms and conditions, overdraft facilities, securities services, advisory services and more. The agreement is among the very largest public sector banking agreements in the country, and shows that sustainability is now an established competitive advantage.



Jan-Frode Janson, group CEO at SpareBank 1 SMN, is particularly pleased that Trondheim municipality sets great store by a partner with high ambitions as regards to the environment and sustainability.

*“This is a major contract which we made a single-minded effort to win. We are particularly pleased that Trondheim municipality sets such great store by a partner with high ambitions as regards the environment and sustainability. This is a goal we share, and together we shall help Trondheim become a national lighthouse for the environment and sustainability,”* said group CEO at SpareBank 1 SMN, Jan-Frode

Janson to the Adresseavisen newspaper when the agreement was signed.

Green deposits were also launched as a new product for corporate clients in Central Norway in 2020. SpareBank 1 SMN currently offers financing of electric and hybrid vehicles on good terms, and financed 5,492 electric and hybrid vehicles by the end of 2020. Work is now under way on establishing green products to finance further vehicle types, for example electric boats for the aquaculture industry and electric excavators.

### **From record high pessimism in March to cautious optimism**

With its local presence and almost 200 years' experience, SpareBank 1 SMN has considerable insight into Central Norwegian business and industry.

The Covid-19 pandemic has differing impacts on the business sector. Ten per cent of businesses are hit very hard, while three per cent have been positively impacted since the outbreak in March 2020. Prospects for businesses in the region are now more favourable, however. Expectations in business and industry shifted from record high pessimism in March 2020 to normal optimism at year-end. This emerged in a survey of 600 business leaders in the region conducted by Sentio.

*“As in previous crises we show that we do not let people, businesses or local communities down when the going gets rough. Like business leaders in Central Norway, we believe there are grounds for cautious optimism in 2021. We acquired many new customers in the year behind us, and are well equipped to gain even more market share as and when growth picks up again”,* concludes executive director Helland.

For the second year in a row, sustainability was taken up as a topic in its own right in the business barometer. A new feature in 2020 was the inclusion of the public sector in the survey. The findings were presented as a separate 'sustainability barometer' in the form of webinar which can be seen in its entirety at smn.no.

The key takeaways from the survey are that efforts to achieve a long-term, green transition should be intensified among businesses in Trøndelag and Møre and Romsdal. At the same time, municipalities in Central Norway appear to have made further progress in their environment and climate efforts than much of business and industry - which appear to be in need of advice and new expertise to enhance their work on the green transition. There are signs of a limited understanding of (climate) risk among small and medium-sized businesses in the region, and businesses' environment and climate effort is under growing influence from their surroundings (customers, public authorities, suppliers, local communities and employees). The survey also provides indications that business and industry in Central Norway are not prepared for changes in customer behaviour, profitability and business opportunities that ensue from an increased focus on climate and the environment.

### ESG classification of the loan portfolio at Corporate Banking

In 2020 work started on an ESG module for use in credit processes at SpareBank 1 SMN. This analysis tool classifies companies and assets along a scale from 'dark brown' to 'dark green'.

With a basis in the analyses' results, the main principle is that companies with a strong ESG profile will have access to products, services and terms more favourable than those available to companies with a weak ESG profile. By setting requirements, providing good advice and setting the stage for good incentives, SpareBank 1 SMN will assist its corporate clients in making sustainable, future-oriented decisions.

The ESG module comprises three pillars: Climate and environment (E), Society (S) and Governance (G). The risk factors underlying the various sectoral analyses were identified through dialogue with SpareBank 1 SMN's own industry relations managers and knowledge of the EU taxonomy. The analysis tool also enables CO<sub>2</sub>-equivalent emissions and SpareBank 1 SMN's share of the company's carbon footprint to be registered. In addition, a qualitative assessment is made with a basis in a number of themes, along with a climate risk assessment.

Environment	Society	Governance
Resource management	Human rights	Planning and decisions
Production	Employee rights	Implementation/follow-up
Circular economy	Equality and diversity	External reporting
Physical climate risk	Gender distribution, board of directors	Corruption
Transition risk	Gender distribution, management team	Economic crime
Tonnes of CO <sub>2</sub>	Sickness absence	Significant accidents at work per work hour
CO <sub>2</sub> /value creation		
Carbon footprint		

The four largest industries in the portfolio in terms of loanable kroner have priority and are analysed first. These industries account for about 50 per cent of loans, and are mainly engaged in commercial property, fisheries, aquaculture and offshore. Greatest progress has been made in fisheries, with about 50 per cent of the loan volume now analysed. Over the course of 2021, SpareBank 1 SMN plans to ESG-classify all key industries and clients in the loan portfolio.

**Core figures for Corporate Banking and Regnskapshuset**

<b>Corporate Banking</b>	<b>2020</b>	<b>2019</b>
Deposits	49.4 bn	42.8 bn
Loans	44.8 bn	40.2 bn
No. of customers	15,564	14,932
No. of FTEs	156	158
Profit before tax	113 m	765 m

<b>SpareBank 1 SMN Regnskapshuset</b>	<b>2020</b>	<b>2019</b>
No. of customers	9,707	10,264
No. of FTEs	443	435
Profit before tax	110 m	108 m

## Community dividend

### Community dividend raised to a new level

SpareBank 1 SMN is the undisputed market leader in Central Norway. Polls of both the retail market and the corporate market show the group to be the preferred choice as regards banking, accounting and real estate agency services. This position has been built up through almost 200 years, and the bank has stood shoulder to shoulder with people and businesses in the region in their upturns and downturns.

This trust imposes an obligation.

The Central Norwegian community is the largest single owner of SpareBank 1 SMN, with a stake of close to 40 per cent. The community dividend is thus the populace's rightful share of the bank's profit. The dividend moneys go to supporting good projects that build and develop Central Norway.



*"Distributions of community dividend rose from NOK 80m in 2019 to NOK 200m in 2020. This considerably strengthens our opportunities to support local communities in the region. We will now go forth and ask people, businesses, clubs and associations throughout the region how they think the community dividend should be invested in the period ahead",* says Eli Arnstad, bank manager at Community Dividend.

#### **2020 – A unifying community response to Covid-19**

When the pandemic hit with massive force in March 2020, community dividend worth NOK 100m was earmarked for Covid-related voluntary initiatives, cultural life and local communities. Through a variety of support arrangements, the bank eased the situation for actors that were particularly hard hit. The aim was to encourage solidarity and activity during an abnormal and difficult time for many.

*"We awarded grants to creative and other artists enabling them to devote a period of inactivity to new projects. 200 marching bands received support to create a festive mood for Norway's national day, and 10,000 children and youngsters were invited to activities safe from coronavirus. Together with local business and industry we played our part in obtaining jobs for 750 young people. In addition we set the stage for more than 100 student organisations to continue their activities in a safe and secure manner,"* Ms Arnstad explains.

Outdoor concerts, an outdoor cinema and other cultural happenings that eased life during Covid-19, also received financial support. Just before Christmas 2020, SpareBank 1 SMN organised a Christmas concert that was communicated digitally on a broad front to senior centres and institutions throughout Central Norway. Overall, these initiatives have also secured work for a number of occupational groups that were left high and dry when the pandemic hit.

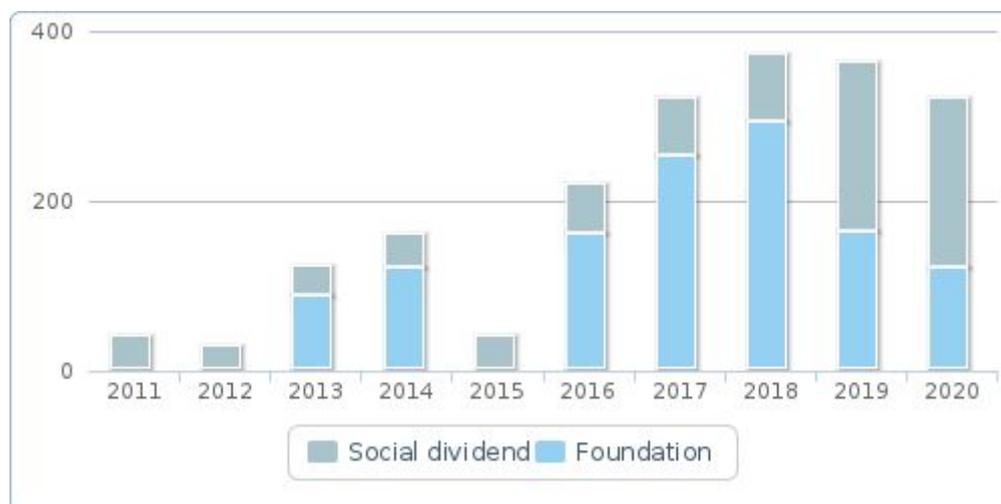
All in all, the group's support arrangements during the pandemic have achieved a broad outreach in traditional and social media alike. This type of visibility is important in building awareness and knowledge of the significance of the community dividend and the power intrinsic to the savings bank's ownership model.

Although the Covid response effort took up much of the community dividend's work and funds in 2020, there has also been room for other activities. Projects linked to the UN sustainability goals now closely follow the priorities applied to community dividend.

SpareBank 1 SMN distributed NOK 1m in grants to 25 talented individuals in the fields of culture, sports, and business and social development. About NOK 10m went to causes aimed at making food consumption and food production in the region more sustainable. The group also entered into a collaboration with the Norwegian University of Science and Technology (NTNU) to ensure the establishment of a campus pilot to promote students' entrepreneurial skills and to support the development of innovation-oriented student activities.

Ms Arnstad emphasises that the power inherent in SpareBank 1 SMN's projects often triggers both commitment and substantial funds to the voluntary sector in local communities. *"As a rule, 1 krone's worth of community dividend triggers a total of 6 kroner. The 'spleis' campaign to secure a positron emission tomography (PET) scanner in Sunnmøre is a good example of this mechanism. Our grant of NOK 1.5m sparked a communal effort which ensured that the target of NOK 30m was reached by an ample margin. The establishment of an environment-friendly artificial turf pitch at Frosta is another example; we matched each krone, ensuring that the target was reached, and passed,"* she adds.

The campaign 'Takk for maten', whose goal was to reduce food waste in the region, was also popular in 2020. Of particular note is the project 'Geitmyra Matkultursenter' in Trondheim where children learn healthy and sustainable food habits.



*Development in the size of social dividend*

## The community dividend will lift the region in the period to 2023

Ambitions for community dividend have grown considerably, and will leave their imprint throughout SpareBank 1 SMN in the run-up to the 200th Anniversary in 2023. People and businesses in Central Norway will see that it pays for towns and local communities to make local choices. When the region prospers, SpareBank 1 SMN prospers. And if SpareBank 1 SMN prospers, the region also benefits through larger dividend payouts to the community.

SpareBank 1 SMN's ownership model, entailing close relations with people and businesses, is rock solid – as it has for almost 200 years.

*“The community dividend enables us to invest in local communities. We will build and develop our region together with enthusiasts, competence institutions and everyone else that makes things happen in Central Norway,” Ms Arnstad emphasises.*

In 2020 a new strategic direction for the application of community dividend was adopted. Five priority investment areas were selected, one of which is sustainability/climate and the environment. The other areas are art and culture, sports and outdoor recreation, innovation and value creation and community. The UN sustainability goals will permeate all work on community dividend, and will underlie the investments made. All who apply for allocation of community dividend are now required to explain which sustainability goal(s) their application supports. Ahead SpareBank 1 SMN will focus on establishing good measuring and reporting tools that can document how community dividend contributes to sustainable development in Central Norway. This is fully in line with the key role of community dividend in the group's sustainability strategy.

*“SpareBank 1 SMN shall stimulate sustainable development of Central Norway through its role as a driver for a green transition, as partner for the inclusive development of society and guide for a responsible corporate culture. We shall achieve this through continual improvement of our own day-to-day operations and organisation culture, development of our customer offering and responsible application of community dividend.”*



## The people

SpareBank 1 SMN's definitively greatest competitive edge is, and will continue to be, its skilled and competent staff.

### Salary and bonus arrangements

Salary and bonus arrangements are further described in the board of directors' declaration on the determination of salary and other remuneration to senior employees in note 20 to the annual accounts.

### Worker rights, equal status and diversity

SpareBank 1 SMN respects and takes account of international worker and human rights. We have drawn up and published a policy document that specifies the conventions, frameworks and policies by which the group abides.

The right to organise is important. A substantial proportion of our employees are members of a trade union, and the group attaches much importance to good cooperation with the unions. The proportion of employees in the group who were covered by a collective bargaining agreement in 2020 was 66 per cent. (This figure refers to permanent employees, and includes all companies in the group with the exception of SpareBank 1 Invest, SpareBank 1 Kapitalforvaltning and Spire Finans).

SpareBank 1 SMN seeks to promote equal status and avoid discrimination in all aspects of the employment relationship, from vacancy announcement to termination of the employment relationship. The group also wishes to maintain a wide diversity – the employees should reflect the community of which SpareBank 1 SMN is a part. This applies to cultural background, gender, age, ethnicity and sexual orientation. No instances of discrimination were reported in 2020.

A good balance between the genders is sought at all levels of the organisation; in 2020 the proportion of women in managerial positions with personnel responsibilities was 39 per cent. The group management team now comprises nine persons, two of whom are women. Overall, women's share of men's pay across the group stands at 72 per cent. The corresponding figure for the parent bank is 87 per cent. The main reason for this disparity is the substantial preponderance of men high up in the job hierarchy and in weightier managerial positions. No material differences in pay between women and men in comparable positions are in evidence. SpareBank 1 SMN will in 2021 as previously focus on pay equality, while setting the stage for recruitment of more women to weightier specialist and managerial positions.

SpareBank 1 SMN's objective is that women should account for a minimum of 45 per cent of managerial positions at all times. Our development programme for young managers targets a minimum women's share of 50 per cent.

### Ethical guidelines

The group's employees and elected officers must maintain and be recognised for their high ethical standard. All, regardless of role and position, are expected to display conduct which inspires confidence, and is honest

and fair and square. The ethical guidelines embody four overarching key principles: the duty of confidentiality, financial independence, loyalty and personal integrity. Conduct and actions must underpin the group's role as a responsible and central social actor, and underpin our goals and strategies with regard to corporate social responsibility and sustainability.

All customer treatment and advice must conform to the industry's requirements as to good practices. Customers' needs and interests must be safeguarded through good information and advice that enables them to make conscious and well-informed choices.

The group has drawn up a set of guidelines specifically to prevent bribery and corruption. The ethical guidelines also emphasise that group staff members may in no circumstance receive financial benefits in any form from the group's clients or suppliers. Persons with managerial responsibility have an obligation to familiarise their staff members with the ethical guidelines of SpareBank 1 SMN. New staff members receive a thorough introduction to the guidelines at an early stage.

In 2020 we will continue our task of instilling awareness of the ethical guidelines and will consider new methods to intensify our managers' and staff members' focus in this area.

The group's ethical guidelines are revised annually.

## Whistleblower programme

SpareBank 1 SMN has internal guidelines on whistleblowing. Employees are urged to report censurable circumstances of which they become aware or personally experience. Staff can report via a number of internal channels, including their immediate superior, the HR manager and legal services director. An external reporting channel has also been established for a whistleblower to report anonymously if he or she so wishes.

Information on employees' right and obligation to report censurable circumstances is readily accessible on SpareBank 1 SMN's intranet pages.

Three reports were registered via the whistleblowing facility in 2020. One report resulted in a written warning; the second was adjudged groundless after a review of the matter, and the third was cleared up with no basis found for a formal reaction.

## Commitment and staff development

SpareBank 1 SMN aims to be an attractive employer with a committed and competent workforce who experience a good balance between work and leisure. The stage is set for such a balance through flexible working hours and a life phase policy which accommodates staff members' need to adapt to their life situation.

No organisation survey was conducted in 2020. In its place a modified poll was conducted in the bank focusing on employees' situation during the Covid-19 pandemic.

### Here are some of the poll's chief findings

- 60 per cent of employees experience a satisfying working day compared with previously, while 40 per cent report a neutral or dissatisfying working day.
- 97 per cent consider the communication flow from the employer to have been good, that guidelines and measures have been clear-cut and that they have confidence in the employer's ability to handle the situation in a responsible manner.
- 90 per cent report feeling well attended to both by the group management team and their immediate superior.
- The bank has maintained virtually normal operations with 60 per cent of staff working from home, and 34 per cent combining home working with working at the office. 90 per cent report being able to deliver good customer service, 80 per cent that they have access to equipment and systems needed to work effectively, 88 per cent that necessary support is at hand when required, and 87 per cent that they pull together well with colleagues when working from home.

## Competence raising in 2020

SpareBank 1 SMN's decidedly most important resource is its employees. Skills development, career development and recruitment accordingly have a high priority when the group is to meet the future and mark itself out from its competitors. The group also has a major focus on internal mobility. In 2020, 21 staff members moved to new positions within the group, while 44 persons were recruited externally.

The advisers in both the retail and corporate divisions completed a number of training and competence-updating programmes in banking skills, products, advising, and ethics in 2020. The object is to assure high quality, trust and a sense of security when dealing with customers.

Training programmes were also held in data and information security for all staff members, as well as mandatory courses in personal data protection and anti-money laundering.

### Focal areas in 2020:

- For advisers in the corporate banking division, the bank introduced the DISC model in sales and customer service. The object is to develop competence and relational skills by:
  - Understanding strong aspects and limitations in one's selling style
  - Identifying the customer's buying style and adapting one's selling techniques
  - Further developing and adapting one's selling strategies and selling style in one's interaction with the customer
- For managers in the corporate banking division, a sales manager programme was completed including topics such as
  - Management platform
  - Sales management in perspective
- Managers and advisers/salespersons in the retail banking division completed the financial industry's authorisation scheme for personal insurance.
  - Knowledge test and practical test

- Staff in the corporate and retail banking divisions completed a digital e-learning programme entitled Sustainability in Finance:
  - Knowledge of the industry's role, objectives, tools and the significance of one's own role of adviser.
  - Awareness of the main elements of central agreements and standards in the sustainability field: the UN sustainability goals, Paris Agreement, OECD corporate responsibility guidelines and Global Compact. Awareness of EU work on sustainability, including the main features and purpose of the Classification Regulation
- Staff in the corporate and retail banking divisions completed the digital e-learning programme on EPK ('own pension account') and God Skikk ('good practices')
  - Necessary factual knowledge regarding the introduction of EPK, which was launched in February 2021.
- Staff across the group completed training in the use of Teams which will promote:
  - Effective interaction within the group.

## Health and physical activity

SpareBank 1 SMN wishes to lay a basis for employees to stay in good physical shape.

Substantial resources were invested in the Better Shape programme in 2020. The programme encourages individuals and departments to keep fit by organising competitions, by subsidising fitness centre membership and through keep-fit activities in connection with work. We also encourage employees to spend their journey time to and from work keeping fit, and make available a bicycle garage with a workshop and bicycle wash station to that end.

It is well documented that physical activity helps to reduce sickness absence. As a party to the Inclusive Employment Agreement, SpareBank 1 SMN considers it very important for employees on sick leave to stay in touch with their work colleagues, thereby making it as easy as possible to make a rapid return to work. In collaboration with the Norwegian Labour and Welfare Administration (NAV), the group accepts employees who need job training.

Sickness absence in the group totalled 4.1 per cent in 2020. This figure is weighted sickness absence based on figures and share of employees in the parent bank, SpareBank 1 Regnskapshuset SMN, EiendomsMegler 1 Midt-Norge and SpareBank 1 Markets.

**Staffing**

<b>Group</b>	<b>2020</b>
No. of FTEs, incl. subsidiaries <sup>1)</sup>	1,546
No. of FTEs, parent company	660
Sickness absence	4.10 %
Share of women	53 %
Share of women in management positions	39 %
Women's share of men's pay	72 %
Average age	43.5 år
Average time of employment	10 år
No. of recruitments, internal	32
No. of recruitments, external	125
Turnover	10 %
Share of employees covered by collective bargaining agreement	66 %

1) Number of FTE's has been adjusted for vacancy rate

**Age groups' gender distribution**

The figures refer to employees of the SpareBank 1 SMN group exc. SMN Invest, SpareBank 1 Kapitalforvaltning and Spire Finans, and represent the number of employees in respect of whom the SpareBank 1 SMN group has obligations.

Includes trainees and temporary employees.

<b>18-29</b>	<b>289</b>
Women	126
Men	163
<b>30-39</b>	<b>367</b>
Women	192
Men	175
<b>40-49</b>	<b>358</b>
Women	187
Men	171
<b>50-59</b>	<b>364</b>
Women	210
Men	154
<b>60-70</b>	<b>212</b>
Women	117
Men	95
<b>Total</b>	<b>1.590</b>

**Distribution of new employees**

In 2020 there was a total of 125 new employees, of which 73 were women and 52 men (permanent employees).

<b>Women</b>	<b>73</b>
18-29	27
30-39	24
40-49	19
50-59	3
<b>Men</b>	<b>52</b>
18-29	20
30-39	15
40-49	12
50-59	5
<b>Total</b>	<b>125</b>

**Distribution by employee type and gender**

<b>Permanent</b>	<b>1,529</b>
Women	807
Men	722
<b>Midlertidig</b>	<b>53</b>
Women	19
Men	34
<b>Lærling</b>	<b>8</b>
Women	6
Men	2
<b>Total</b>	<b>1,590</b>

The figures refer to the SpareBank 1 SMN group exc. SpareBank 1 SMN Invest, SpareBank 1 Kapitalforvaltning and SpareBank SMN 1 Spire Finans, and represent the number of employees in respect of whom the SpareBank 1 SMN group has obligations.

Includes trainees and temporary employees.

## Responsible operations and management

The four core values of SpareBank 1 SMN – wholehearted, responsible, likeable and capable – all relate to SpareBank 1 SMN's work on corporate social responsibility. However, responsible singles itself out as the most important precept for the group's corporate social responsibility in operations and management.

By assuming an extensive corporate social responsibility, SpareBank 1 SMN aims to be the preferred choice for its customers, employees and owners. The group's ambition is to employ corporate social responsibility as a competitive advantage by integrating it into all governance, internal governing documents, relevant policies and guidelines. All relevant documentation for the group's corporate social responsibility and sustainability effort is assembled in Sustainability Library at smn.no.

The group's performance in corporate social responsibility and sustainability is reported under the globally recognised Global Reporting Initiative (GRI) standards.

## Responsible investments

It is important for SpareBank 1 SMN to assume responsibility for sustainability in investments. The group supports the UN Principles for Responsible Investment (UN PRI) in its own investments, and uses its influence to ensure that those principles are complied with in joint investment decisions.

Investments at SpareBank 1 SMN can be grouped into three categories:

- Its own direct investments
- Investments by administrative services mediated through the group
- Investments of funds from the community dividend and SpareBank 1 SMN Utvikling

At the end of 2020 the group's investments in certificate and bonds for liquidity purposes total NOK 26.6bn. SpareBank 1 SMN has increased the portion invested in ESG-rated bonds, which are in all essentials issued by multinational organisations.

SpareBank 1 SMN's largest subsidiaries are EiendomsMegler 1 Midt-Norge, SpareBank 1 Finans Midt-Norge, SpareBank 1 Regnskapshuset SMN, SpareBank 1 SMN Invest and SpareBank 1 Markets.

The latter manage their own funds whereas SpareBank 1 Kapitalforvaltning manages capital on behalf of clients.

### Green mutual fund products

SpareBank 1 SMN is concerned to offer mutual funds that promote its high ambitions in sustainability. The mutual fund offering is built up through ODIN, which SpareBank 1 SMN indirectly co-owns, and mutual funds from other fund managers.

Assessment of the bank's overall offering is based on periodical product revisions in collaboration with the other SpareBank 1 banks. This revision employs criteria such as environment, social conditions and governance (ESG). When new mutual funds are selected and approved, new mutual fund providers are required to satisfy the guidelines for sustainable distribution of such funds.

Recent years have seen growing interest in sustainable and green funds in Norway. SpareBank 1 SMN wishes to make it a simple matter for customers to choose the most sustainable mutual fund options available. To that end SpareBank 1 SMN, together with the other SpareBank 1 banks, has, through a collaboration with The Governance Group, mapped the sustainability performance of all 291 mutual funds on the trading platform. The criteria by which the funds are ranked conform to SpareBank 1 SMN's own guidelines on sustainable distribution. The funds received a point score based on how well they meet expectations as to negative screening, positive screening and active ownership. Each fund's total score is then translated into a rating which is visible in the client's digital bank. Sustainability labelling has already received much media attention, and this attention is expected to continue into 2021.

In 2020 SpareBank 1 SMN adopted a new business and distribution model in the saving area. In the new model, clients that desire serviced follow-up of their investments are presented with SpareBank 1 SMN's own model fund portfolios. One of several criteria for a fund's inclusion in the model portfolios is that the fund has received a good rating under SpareBank 1 SMN's sustainability labelling. The model is to be implemented in the first half of 2021.

ODIN Forvaltning AS, which SpareBank 1 SMN indirectly co-owns, has a large focus on sustainable investments. This management company was the first asset manager in Norway to sign up to the UN principles for responsible investments in 2012. The company is a member of NORSIF ('Norwegian forum for responsible and sustainable investments'), the Norwegian Corporate Governance Board (NUES) and Sweden's Sustainable Investment Forum (SWESIF). ESG is an important element in their investment philosophy, termed the 'ODIN model', and external rating agencies such as Sustainalytics are employed to perform objective assessments of all companies in which ODIN invests. As a result, all ODIN's equity funds have received the next best rating, 'B', in SpareBank 1 SMN's fund sustainability labelling system.

### **Investments by SpareBank 1 SMN Utvikling and community dividend**

The mission of the foundation SpareBank 1 SMN Utvikling is to invest and manage donations to non-profit business and development projects for the common good, seedcorn activities or other non-profit causes that involve ownership and that stimulate innovation and value creation in SMN's market area. SpareBank 1 SMN Utvikling has ownership positions worth NOK 43.8m.

Community dividend is the community's rightful share of the dividend on SpareBank 1 SMN's net profit for the year. The community's share of total equity is just under 40 per cent, and the same share of the annual dividend is accordingly earmarked for non-profit causes. Projects in the field of innovation and business development, art and culture, sports and outdoor recreation, sustainability and the environment, and humanitarian purposes, that strengthen the regional community are given priority. The funds are held in an account with SpareBank 1 SMN, and the provision for distribution in 2020 amounts to NOK 200m, of which NOK 100m was earmarked for collective Covid-19 response efforts. The allocation is normally distributed relatively equally between grassroots sports, culture and business development.

The mission of SpareBank 1 SMN Utvikling and community dividend is to underpin sustainable investments and allocations, and reporting will be in accordance with that mission.

### Framework for issuance of green bonds

In keeping with the group's strategy for corporate social responsibility, SpareBank 1 SMN has prepared a framework for the issuance of green bonds (Green Bond Framework). The framework was drawn up in keeping with ICMA Green Bond Principles and supports the UN Sustainability Goals.

Qualified loans are grouped in categories:

- Green houses and commercial buildings
- Environment-friendly and circular economy adapted products, production technologies and processes with selected sustainability certifications
- Electric vehicles
- Renewable energy
- Sustainable agriculture/forestry

SpareBank 1 SMN has designated Multiconsult as adviser to identify the most energy-efficient residential and commercial properties, electric vehicles and renewable energy. Sustainalytics has undertaken an independent assessment of the framework.

At 31 December 2020 SpareBank 1 SMN has issued green bonds worth NOK 9.55bn.

## Responsible credit practices - Retail Banking

SpareBank 1 SMN's credit strategy is adopted by the board of directors. The basic principle for sustainable lending to retail customers is enshrined in the bank's overarching strategy for sustainability in lending, and in the bank's credit policy for retail customers. The requirements are operationalised through a credit manual which explains the bank's specific requirements with regard to efforts to combat money laundering and the black economy. Together with the bank's product policy, the credit manual sets restrictions on non-sustainable lending. By this means the bank discourages customers from assuming debt commitments that are counter to good advisory practices and prudent lending practices.

The bank also discourages customers from taking out loans based on the loan's purpose. This applies for example to customers intending to borrow in order to send money to unknown recipients, to free up lottery winnings or an inheritance, or other typical types of fraud. The same discouragement is given to customers with low debt-servicing ability or in cases where the loan purpose is considered to be irresponsible in light of the customer's personal finances. Persons who mortgage property as a guarantee for another's debt payment are subject to the same discouragement as borrowers.

The credit manager at Retail Banking, SpareBank 1 SMN, has operative responsibility for developing products and for ensuring the required focus on sustainability. In 2017 a new strategy for corporate social responsibility was adopted which sets requirements on the development of green products, and includes credit procedures giving priority to socially responsible loans. This responsibility applies both to matters related to social responsibility and climate-oriented measures.

Good complaints procedures have been established. The complaints procedure is readily accessible, and all complaints are handled by designated complaints officers. In each case the complaints officer carries out a separate review of the bank's compliance with its policy and procedures. The bank's complaints committee

also reviews on a quarterly basis lessons to be learned from complaints, and evaluates any need to amend policy, procedures, marketing and products. The various product areas' governance system is reviewed annually in light of complaints and events in the preceding year. The bank recently introduced a new tool for use in following up customer complaints, recording discrepancies and areas for improvement.

## Responsible credit practices - Corporate Banking

In 2020 SpareBank 1 SMN took its systematic work on responsible credit to corporate clients a stage further, and the board of directors adopted a new credit strategy. New credit policy rules were introduced that set requirements and expectations on clients' ESG standards and on financing of investments. A survey of ESG and environment standards at major loan clients has commenced and continues on a sector by sector basis. Credit policy rules and surveys are based on the EU taxonomy. In areas where the taxonomy currently does not provide guidelines, the group's industry experts are consulted.

All those involved in granting credit to commercial activities, or in investment decisions related to the bank's or SpareBank 1-alliansen's investment decisions, are required to be familiar with the bank's principles. These principles guide the purposes for which, and the recipients to which, money may be lent. The principles also guide how the bank is to conduct itself and influence joint financing decisions in instances where the bank itself does not have a dominating position.

SpareBank 1 SMN does not wish to finance business or projects that are not operated in keeping with the bank's requirements, and existing corporate clients are expected to take steps to rectify any circumstances that breach those requirements. While the bank is bound by loan covenants with existing clients, any failure to take steps to act to comply with the bank's requirements does entail increased risk. This could result in new pricing being imposed on the borrower. Green deposits have also been established, and work is under way to establish green purpose-based loan products.

In smaller credit cases, standard credit tools are employed. For larger credit cases and exposures reviewed by the credit committees, standard questions on the client's sustainability status and development are employed. Work is ongoing to integrate a more detailed survey and assessment of sustainability into the credit tool itself through control points linked to the theme. The authorisation system quality assures the documentation of sustainability assessments. These assessments will also be quality assured upon consideration by the credit committees.

Documentation of sustainability assessments is a theme of the internal audit, with regular reviews of the quality of credit procedures. The credit strategy along with the associated document 'Our requirements on sustainability in our lending and ownership positions', are reviewed at minimum annually.

## Responsible marketing of products and services

Providing sound, responsible advice is absolutely key to the way SpareBank 1 SMN markets its products, with *responsible-mindedness* as an important precept whose object is to put clients in a position to make good economic choices in the short and long term alike. To that end, SpareBank 1 SMN elucidates a variety of economic themes in the context of the corporate market, retail market and real estate agency. Content

articles in blogs, social media and traditional media are important means of projecting information to customers. In addition, our webpages aim to be informative both as regards the product itself and the advice offered on the product area.

In the first half of 2020, SpareBank 1 SMN focused on promoting an understanding of the economic consequences of Covid-19. Of particular importance was marketing related to the market for saving and the housing market, alongside advice related to unemployment and layoffs as well as the various government support arrangements for businesses. This work continued in the second half-year, in addition to information regarding the introduction of 'Egen Pensjonskonto' ('personal pension account').

In 2020 SpareBank 1 SMN also launched 'Min økonomi' ('my finances') in the digital bank. This service provides customers with a better overview of what they spend their money on, and thus a better basis for financial planning. The service also provides customers with an assembled overview of their subscriptions, and the opportunity to terminate subscriptions directly in the digital bank.

At year-end the legal service 'Justify' was launched, with simple, digital tools enabling the customer to set up a cohabitation contract, will or future power of attorney. This makes for greater financial security for the group's customers.

Before SpareBank 1 SMN launches or distributes products or services, it assesses them for their impact on the target group concerned. Independent assessments in relation to law, personal data protection, security, ethics and intelligibility for the target group concerned are obtained through a systematic risk assessment. Moreover, all marketing activities are quality assured under the requirements as to personal data protection and GDPR.

SpareBank 1 SMN recorded no breaches of, or complaints regarding, marketing activities in 2020.

## Personal data protection

SpareBank 1 SMN is dependent on the confidence and trust of customers, supervisory authorities, owners and other stakeholders. Large volumes of personal data are managed, processed and owned through the group's services, which imposes strict requirements on the application and observance of key principles of personal data protection such as confidentiality, integrity and accessibility. SpareBank 1 SMN's obligations are described in detail at [smn.no](https://smn.no).

A designated data protection officer assists the group CEO in meeting requirements as to treatment of personal data. The data protection officer also prepares an annual report directly to the board of directors of SpareBank 1 SMN. The report covers the areas on which the data protection officer has focused, the observations made and risk areas to be included in the further work on personal data protection.

2020 was marked by Covid-19 and the need to rapidly modify and digitalise tools and processes in order to maintain internal and external interaction and coordination. The European Court of Justice delivered a judgment in the Schrems II case which established that personal data transfers out of the EEA based on the 'Privacy Shield' are invalid. The ruling led to much attention to data flows and transfer issues related to the use of cloud services, at SpareBank 1 SMN as elsewhere.

The ambition for 2021 is to reinforce ultimate accountability for data protection within the organisation, implement good data deletion procedures and establish risk assessments that safeguard the customer's personal data. Efforts to close identified gaps will continue.

SpareBank 1 SMN has a low threshold for reporting breaches of personal data security to the Data Inspectorate. The group received five complaints from customers related to personal data security in 2020, and reported 13 deviations classified as leaks or loss of personal data to the Data Inspectorate.

The group received no penalty charges or injunctions from the Data Inspectorate in 2020. A key element of good personal data protection is good information security.

## Information security

The entire financial industry faces challenges in connection with open business models, which offer greater possibilities to offer new services. In 2020 SpareBank 1 SMN noted an increase in instances of malicious players 'phishing' in particular for card and electronic customer identification details (BankID) in order to misuse them for their own gain. Security architecture and solutions tailored to new threats have high priority. SpareBank 1 SMN accordingly participates in SpareBank 1-alliansen's work on security strategy.

The increased capacity needed to provide the requisite security, high business continuity and reliable customer services is now in place. Information security in the context of open banking, coordination and cloud services has particular priority.

SpareBank 1-alliansen's 'policy for security' is the basic governing document for all information processing. The group operates a policy for the outsourcing of IT services as well as a joint security strategy for the entire alliance. Important decisions, such as outsourcing, are also considered by the board of directors. Continual monitoring of the bank's systems is delivered by the department for operative information security at SpareBank 1-alliansen.

Regulations on the use of information and communication technology (ICT) guide the work on information security, and SpareBank 1 SMN is regularly audited by both the internal and external audit functions under these regulations.

Responsibility for data and cyber security rests with the IT and security department at SpareBank 1 SMN. The department comprises 18 employees and one hired-in FTE. With formal responsibility for the data and cyber security area, the department also largely performs the operative assignments. Parts of these assignments are outsourced to partners and suppliers. The department's own employees control access to systems and data, and are responsible for basic server security and correct access level for employees, software to protect systems and services against unauthorised access, and backups of locally stored data.

In addition, the department cooperates closely with SpareBank 1 Utvikling as executing partner in a number of areas, including cyber security and round-the-clock security monitoring and incident reporting. TietoEvry delivers a shared, basic client-server platform to SpareBank 1-alliansen. This ensures that recent versions of operative systems are in use and that the systems are supported by security updates at least once a month.

SpareBank 1 SMN has established a number of technical security measures with regard to information security in which training and awareness-raising are at centre stage. The bank's competence and

attitude-moulding programme for information security, Passopp, contributes to strengthening the security culture across the entire organisation. Based on the results from Passopp, the group conducts analyses and prioritises focal areas for future competence and attitude-moulding courses.

Customers find tips and advice on safe and secure use of the bank at [smn.no](http://smn.no).

## Economic crime

Economic crime such as fraud, corruption, crime in working life and money laundering are a societal problem and undermine established systems in a democratic and well-functioning welfare society. SpareBank 1 SMN's goal is to help to ensure that society, the customer and the group do not lose money due to economic crime, and at the same time to instil customers' confidence in the group's products and services.

SpareBank 1 SMN works continually to expose and combat economic crime. A key principle is to know the customer and the origin of the funds that pass through our system. Our policies and procedures, documented in SpareBank 1 SMN's Sustainability Library, guide SpareBank 1 SMN's work on this front.

The increase in organised, cross-border crime has altered the threat picture – also where economic crime is concerned. More cross-border transactions are now in evidence, along with new products, services and actors in our own sector. Attempts to commit money laundering and fraud against the bank's customers are ever more widespread and sophisticated. Regulation and international standards are constantly evolving to keep pace. Greater demands are imposed throughout, along with more specific and stringent requirements on customer due diligence and customer monitoring.

Viewing SpareBank 1 SMN's products and services in conjunction with the customers' business activities is important in order to ensure a risk-based approach to economic crime and to comply with the requirements of legislation. In this context, knowing one's customer is crucial to the ability to uncover unusual or suspicious transactions. The appropriateness of control measures to the risk concerned is documented.

Combating economic crime requires expertise and resources. The effort to prevent money laundering and crimes that provide financial gain, along with combating attempted fraud, are an important aspect of this activity. Our management system is evaluated and updated annually to keep it abreast of the risk picture and of changes in anti-money laundering policy. In addition, ongoing checks are conducted on various levels, ranging from internal control within the business lines via ongoing transaction monitoring to checks done by the compliance function. Discrepancies, and any need for improvement measures, are looked into on an ongoing basis, and are reported quarterly to the board of directors of SpareBank 1 SMN.

Work on managing money laundering risk and ensuring compliance with the Anti-Money Laundering Act of 2018 continued in 2020. Continual improvement measures are designed to ensure a more effective preventive effort and controls. System development and digitalisation are also important factors in the fight against economic crime.

In 2020, a total of 17,375 transactions were captured by the transaction monitoring systems. All flagged transactions were examined by designated anti-money laundering staff, who reported 211 of the suspicious transactions to the National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim). Transaction follow-up and reporting to Økokrim by other companies in SpareBank 1 SMN is additional to this.

Knowledge and practical training are important in combating economic crime. All employees therefore regularly undergo mandatory e-learning on combating money laundering and terrorist financing. In addition, courses tailored to the respective employee groups are held in the anti-money laundering area on an annual basis.

Ambitions for 2021 are to further strengthen the organisation of the anti-money laundering effort, and to reinforce roles and accountability in that area. SpareBank 1 SMN will continue to monitor changes in the risk picture and the regulatory framework. This will ensure satisfactory management and control throughout in the anti-money laundering area. SpareBank 1 SMN will put artificial intelligence into use to enhance the efficiency and effectiveness of its work to prevent economic crime.

## Compliance

SpareBank 1 SMN shall ensure that the body of rules and regulations governing its activities is identified, implemented, complied with and monitored.

Compliance risk implies that SpareBank 1 SMN can incur public sanctions, financial loss or loss of reputation as a result of failure to comply with rules and regulations and/or breaches of licensing terms and conditions.

The compliance function aims to uncover and safeguard against risk related to compliance with external and internal rules. Its task is to perform risk assessments that form the basis for control plans, and to ensure that compliance is monitored and tested by means of a structured monitoring programme. The function also implements training activities and provides advice and guidance to the organisation in relation to rules and regulations.

The compliance function submits a quarterly report to the group CEO, the risk committee and board of directors. The report presents an overview of new statutory requirements, a summary and review of controls carried out and proactive measures taken, instances of non-compliance, as well as complaints and correspondence with public authorities.

The scope of regulatory changes was considerable in 2020 as in previous years. Extensive regulatory changes of significance for the bank's framework conditions are also expected in 2021. In 2020 there was a particular focus on compliance with the regulatory framework governing anti-money laundering, personal data protection, saving and investment advice. This will continue into 2021, in tandem with continual monitoring of the regulatory picture to capture new developments necessitating follow-up by the group, such as the implementation of a new financial contracts act.

## Anti-corruption

SpareBank 1 SMN's ethical guidelines make clear that corruption is not tolerated:

*"Corruption is not tolerated, either in the group or among our partners. Staff members who are involved in bribery or other forms of corruption may be reported to the police and rendered personally liable."*

All employees are familiarised with the guidelines regarding corruption through various training and attitude-moulding programmes. Should the guidelines nonetheless be breached, sanctions will be imposed on the individuals concerned.

No instances of corruption were uncovered at SpareBank 1 SMN in 2020.

Risk assessment is central to all development of products and services at SpareBank 1 SMN. The risk of corruption is invariably assessed (Sustainability / ESG risk). The most significant corruption risks that have been identified relate to the financing process. One such risk may be in the form of irregularities/corruption related to the approval of credit exposures. This applies to financing of retail and corporate customers alike. Our ethical guidelines make clear that employees must avoid entering a relationship of dependence on clients of or suppliers to the group, and that employees shall maintain a conscious alertness to attempted corruption and any form of facilitation payment.

In order to guard against this type of risk, the group's ethical guidelines and its stance on corruption and employee independence are a theme taken up in career appraisal interviews held each year. Granting of loans to corporate clients is accompanied by a specific question on corruption. When a credit application from a corporate client is to be considered by the credit committee, the customer officer concerned must confirm the following statement:

*"The company/financing is not complicit in corruption"*

When SpareBank 1 SMN purchases products from other suppliers, clear requirements are imposed on the supplier with regard to corruption. These are formulated in a supplier declaration which is a standard annex to all contracts and is signed upon entry into a contract. Central points in this declaration are:

- SpareBank 1 does not accept employees of SpareBank 1 being offered or accepting gifts or other benefits that could be construed as bribes. Neither shall the supplier accept such practice in relation to its own employees.
- The supplier shall actively ensure that SpareBank 1 SMN is not complicit in corruption. The supplier shall not pay bribes on behalf of the bank, and the supplier shall also ensure that the bank does not benefit from corruption carried out further back in the value chain.
- Suppliers who participate in tender competitions shall abide by the guidelines for fair competition, which includes making sure that confidential information is not divulged.
- The supplier shall distance itself from any form of money laundering and take necessary precautions to avoid other parties using the supplier's financial transactions for money laundering purposes.

It is also fixed by contract that we can utilise a third party to audit compliance with the above.

## SpareBank 1 SMN's energy and climate account

As part of SMN continual effort to reduce emissions of greenhouse gases, the group has drawn up an energy and climate account for 2020, based on reported consumption figures from all subsidiaries. The energy and climate account shows overall emissions of greenhouse gases from the group's business, converted to CO<sub>2</sub> equivalents and stated in tonnes of CO<sub>2</sub>. The sum of all emissions is termed the organisation's carbon footprint.

The energy and climate account is based on the international standard GHG Protocol Corporate Accounting and Reporting Standard, and covers recorded emissions from the SpareBank 1 SMN group.

**Direct and indirect emissions**

The climate account builds on three scopes comprising direct and indirect emissions. Scope 1 represents emission sources related to business assets over which the group has operational control. Scope 2 refers to indirect emissions associated with purchased energy. Scope 3 refers to reporting of indirect emissions from purchased goods or services. These are emissions which can be indirectly linked to the organisation's activities. Calculations of CO<sub>2</sub> emissions are performed by CEMAsys which employs an emission factor database to compute CO<sub>2</sub> equivalents with a basis in company-level data.

**First time at group level**

When consolidating the group's energy and climate account, the equity share method is employed, entailing that emissions from SpareBank 1 SMN's subsidiaries are recognised based on percentage of ownership. This is being done for the first time at group level, and the method is in keeping with the group's financial reporting. Data for jointly controlled businesses and related companies is not included, due to the difficulty of obtaining correct figures. Related companies and jointly controlled businesses will be included in the longer term.

**Consumption and drivers for carbon footprint**

The energy and climate account for 2020 shows that SpareBank 1 SMN's total carbon footprint came to 576,6 tonnes of CO<sub>2</sub> equivalents. The group's consumption is mainly related to consumption of fuel for owned and leased cars, heating premises, purchase of various consumer goods such as paper and office supplies and the like, along with business travel.

A complete energy and climate account for SpareBank 1 SMN, both for the parent bank and group, is attached to this annual report.

**Responsible procurement**

SpareBank 1 SMN's procurement policy requires all purchase contracts to include documentation on corporate social responsibility. Suppliers shall abide by local, national and international laws, rules and principles (including provisions regulating matters such as remuneration, working time, health, environment, safety and anti-corruption). Where invitations to tender or bid are concerned, SpareBank 1 SMN requires offerors to document approved environmental certification.

Suppliers have a notification obligation, and SpareBank 1 SMN is entitled to conduct inspections and audits. Suppliers undertake to act in an ethically correct manner in connection with production and contracts for deliveries to SpareBank 1 SMN. The same requirements apply to the supplier's sub-suppliers and partners associated with a contract for delivery to SpareBank 1 SMN. Any breach of the provisions governing corporate social responsibility is deemed to be a breach of contract and may give grounds to void the contract.

Suppliers shall at minimum meet and abide by the requirements of local, national and international laws, rules and principles, including provisions regulating matters such as remuneration, working time, and HES (Health, Environment and Safety) as well as environment and anti-corruption. The standard enclosure on SpareBank 1 SMN's corporate social responsibility applies to SpareBank 1-alliansen in its entirety.

### Sustainability in procurement

SpareBank 1 SMN is a substantial purchaser of goods and services, both locally and as an alliance bank.

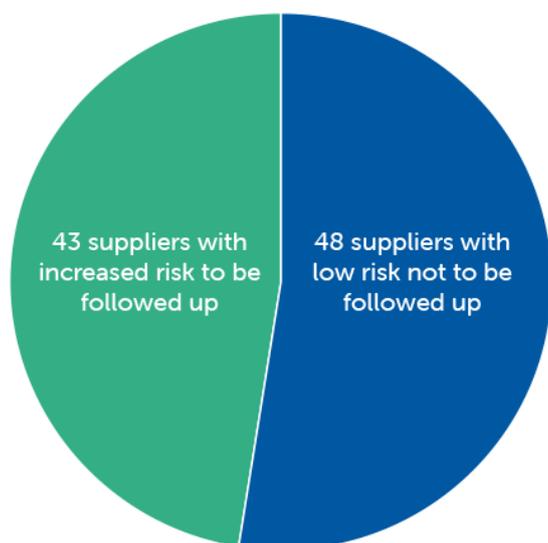
Sustainability in the group's purchases means promoting suppliers' awareness of their supplier chain and of the effort they make to reduce negative impacts on the environment, social conditions and ethical business activity throughout their supplier chain.

SpareBank 1 requires suppliers to have in place guidelines on sustainability, which must be translated into action. *Sustainability in procurement* has become an integral part of the process at SMN, the alliance banks and suppliers. All purchasing practices are subject to thoroughgoing ESG assessments.

In order to carry through ESG assessments of suppliers, all purchasing standards were revised in 2019 in cooperation with all banks in SpareBank 1-alliansen. New guidelines for sustainability in procurement, supplier declarations and contract enclosures were also developed.

### Follow-up of suppliers with an increased risk of negative impact

In 2019 a risk assessment was performed of 249 suppliers distributed by category. This revealed that 91 suppliers posed an increased risk of negative impact on the environment, social conditions and ethical business activity. These 91 suppliers were subject to closer attention in the first half of 2020, and were asked to report their guidelines as to the environment, social conditions and ethical business practices in their trading, documentation of their environmental management system, and which factors they had identified as having the largest negative impact on the environment and social conditions. 43 of these 91 suppliers were then identified for further follow-up:



### 100% definition

In parallel with SpareBank 1 SMN's work in the alliance, the group has, in keeping with the requirements as to environmental lighthouse certification, carried out a review of its own operating suppliers. This work started in 2019 on identifying suppliers that are environmentally certified under the ISO 14001, EMAS or Environmental Lighthouse schemes. The survey showed that 14 of the group's 21 operating suppliers were environmentally certified. As a result of the group's survey and follow-up of its suppliers, 19 of 22 operating suppliers were environmentally certified as at 31 December 2020. SpareBank 1 SMN's aim is for 100 per cent of its operating suppliers to be environmentally certified by the end of 2021.

**Action plan 2021-2022**

In the period 2021 to 2022 SpareBank 1 SMN will, together with Allianseinnkjøp (the alliance's purchasing department), further develop its effort to promote suppliers' awareness of the risk of negative impact on the environment, social conditions and ethical business practices posed by their own business and by their sub-suppliers. This entails close examination of the respective supplier chains, rather than a review of the entire portfolio spectrum.

In prioritising categories and selection of individual suppliers, importance will be attached to the following:

- Largest risk of negative impact on the environment, social conditions and ethical business practices
- Largest turnover volume
- Core activities
- Largest potential for exerting influence to reduce the risk of negative impacts on the environment, social conditions and ethical business practices.

With a basis in assessments related to the points listed above, the selection of suppliers for further follow-up will in the first instance represent three main categories of products/suppliers in the field of IT-related procurements and IT hardware, administrative procurements and furniture, along with the largest suppliers: NETS, TietoEvry and the largest consultancy firms.

Provided that this approach is found to be appropriate, it will be further developed and applied to follow-up a wider range of purchasing areas and individual suppliers at a later stage.

## The group's work on climate risk

SpareBank 1 SMN's work on climate risk builds on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Based on this the group worked in 2020 on formulating a new climate risk strategy. The strategy will be brought to completion over the course of 2021. The strategy aims to document the group's framework and strategic approach to climate risk. The recommendations in the climate risk strategy will be incorporated in all group strategies, policies and working procedures for which climate risk has relevance. Where lending activity is concerned, climate risk has in recent years been incorporated in the credit strategy along with the framework for green bonds.

The group's work on identifying risk drivers for climate risk in the loan portfolio is based on a combination of the requirements of the EU taxonomy for sustainable finance, the cooperation project with CICERO and the group's industry analyses performed by the group's industry experts. This forms the knowledge base for the work on a model for ESG classification of loan customers, policy rules and knowledge sharing among employees in the group. For Private Banking, the climate burden is calculated based on energy labelling of dwellings, while for Corporate Banking the climate burden is estimated with a basis in the customer's activities. The model has been implemented in the case of fisheries, and 42 per cent of loans to this industry are classified as at 31 December 2020 using the above tool. ESG classification includes an individual assessment of climate risk and registration of greenhouse gas emissions from the customer's business.

The credit policy contains clear-cut delimitations and requirements related to the lending activity – an absolutely key aspect of SMN's risk management. Industry-specific requirements that frame climate risk

have been implemented for commercial property. The group's goal is to have evaluated climate risk and implemented effective credit policy rules for all industries over the course of 2021. Ahead, climate risk will be a key assessment criterion when establishing a framework for maximum lending per industry.

SpareBank 1 SMN's ambition is to ensure that the overall climate burden per krone loaned in the group's loan portfolio does not increase in 2021.