

## 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. TietoEvy 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.

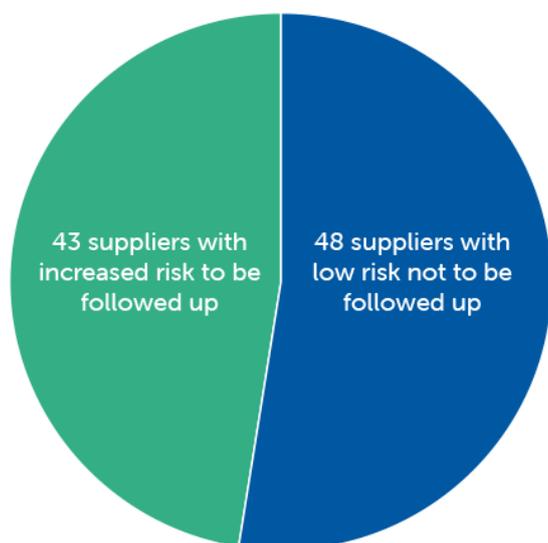
Sustainability in the group's purchases means promoting suppliers' awareness of their supplier chain and of the effort they make to reduce negative impacts on the environment, social conditions and ethical business activity throughout their supplier chain.

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.