

## Responsible operations and management

A wide-ranging corporate social responsibility is important for ensuring SpareBank 1 SMN's position as the preferred choice for its customers, employees and shareholders. That is why the group integrates CSR into all governance, internal steering documents, relevant policies and guidelines. All relevant documentation for the group's CSR and sustainability effort is assembled in the sustainability library at [smn.no/barekraft](https://smn.no/barekraft). This library is updated on a continual basis.

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

## Responsible investments

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 2021 the group's investments in **certificate and bonds** came to NOK 30.8bn. In 2021 SpareBank 1 SMN increased the portion invested in ESG-rated bonds, which are in all essentials bonds issued by multinational organisations and covered bonds.

### **Investments by administrative services mediated through the bank**

SpareBank 1 SMN is concerned to offer mutual funds with 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 by way of periodical product revisions in collaboration with the other SpareBank 1 banks. This revision also takes in criteria such as environment, social conditions and governance (ESG). As part of the process of selecting and approving new mutual funds, the respective providers are required to satisfy the bank's guidelines for sustainable distribution and recommendation of such funds.

The bank's selection of mutual funds is reviewed at minimum annually to compare the funds' investments and guidelines with the bank's guidelines in order to guard against possible breaches. As recently as October 2021 one of the funds on SpareBank 1 SMN's mutual fund platform was closed to new subscription due to guideline breaches.

Recent years have seen growing interest in sustainable and green funds in Norway. SpareBank 1 SMN wishes to make it simple for customers to choose the most sustainable mutual fund available. To that end SpareBank 1 SMN maps on an annual basis, together with the other SpareBank 1 banks and through a collaboration with The Governance Group, the sustainability performance of all 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 receive 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. You can read more about sustainability labelling of mutual funds at [smn.no](https://smn.no).

SpareBank 1 SMN has various mutual fund recommendations designed to suit a variety of customer preferences. Common to all recommendations is the criterion that all funds included in a recommendation have received a good rating under SpareBank 1 SMN's sustainability labelling.

ODIN Forvaltning AS has a 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 the Norwegian Forum for Responsible and Sustainable Investments (NORSIF), the Norwegian Corporate Governance Board (NUES) and Sweden's Sustainable Investment Forum (SWESIF). Sustainability considerations are an integral element of their investment philosophy, termed the 'ODIN model', and external rating agencies such as Sustainalytics are employed to conduct objective assessments of all companies in which ODIN invests. The upshot was that all ODIN's equity funds 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 business and development projects for the common good, seedcorn activities or other non-profit causes that involve an ownership role and that stimulate innovation and value creation in SMN's market area. SpareBank 1 SMN Utvikling has ownership positions with a book value of NOK 31.9m.

Community dividend is the community's rightful share of the annual dividend on SpareBank 1 SMN's net profit. 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. Priority is given to projects in the field of innovation and business development, art and culture, sports and outdoor recreation, sustainability and the environment along with humanitarian causes that strengthen the regional community.

The funds are held in an account with SpareBank 1 SMN, and the provision for distribution in 2021 was NOK 200m, of which NOK 100m was earmarked for activities and initiatives to set the stage for the reopening of society in connection with the relaxation of Covid guidelines in autumn 2021. The allocation is normally distributed relatively evenly between grassroots sports, culture and business development. See [samfunnsutbytte.smn.no](https://samfunnsutbytte.smn.no) for an overview of allocations.

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

## **Sustainable mutual fund products**

SpareBank 1 SMN offers its customers several so-called green mutual fund products through various providers. They note growing demand for this type of product, and through ODIN Forvaltning AS expanded their range of green products as recently as December 2021 with the introduction of ODIN Bærekraft ('ODIN Sustainability'). Through ODIN Bærekraft, customers will have access to sustainable high-quality companies throughout the world that contribute to a more sustainable future.

## 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. You can read more at [fn.no](#).

Qualified loans are grouped in categories:

- Green dwellings 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.

As at 31 December 2021 SpareBank 1 SMN had issued green bonds worth NOK 14.3bn.

## Responsible credit practices - Retail Banking

SpareBank 1 SMN's credit strategy is adopted by the board of directors. The basic principle of sustainable lending to retail customers is enshrined in the bank's sustainability strategy. The requirements are operationalised by means of Retail Banking's credit policy and a credit manual which explains the bank's specific requirements with regard to procedures for the lending business.

Together with the bank's product policy, the credit procedures set the framework for sustainability in lending. The framework aims to ensure that the bank for example avoids imposing debt commitments that are counter to good advisory practices or prudent lending practices. The bank also advises customers against taking out loans where the purpose of the loan is considered unwarrantable. 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. Moreover, borrowing is disadvised in the case of customers with low debt-servicing ability. Persons who mortgage property as a guarantee for another's debt payment are disadvised on the same basis as borrowers.

In materiality analyses Retail Banking is considered to have greatest bearing on the themes of property and agriculture. Retail Banking has for example the opportunity to positively impact the housing situation. This may apply to its role as a driver of the inclusion of low-paid individuals and families in the housing market and offering other financial services with a positive effect on vulnerable groups in the community. It may also apply where raising the social profile of the customer offering is concerned. Retail Banking has in addition a role as driver in the construction and real estate industry in terms of its influence on property developers and its collaboration with EiendomsMegler 1 Midt-Norge with a view to a partnership able to exert a positive climate impact on construction projects and promote sustainable housing standards.

Retail Banking also works purposively to further develop concepts and products that lay a basis for the green transition:

- A broader offering of green products
- Coordination with EiendomsMegler 1 Midt-Norge to provide incentives for sustainable home purchases and provision of green financing for the refurbishment or upgrading of older dwellings.
- Coordination with government authorities, developers and EiendomsMegler 1 Midt-Norge to ensure that housing developers take account of house buyers' sustainability preferences and develop green products

The credit manager at Retail Banking, SpareBank 1 SMN, has operative responsibility for developing financing products and for ensuring the required focus on sustainability in this dimension. Retail Banking focuses on sustainability and the green transition through concept and product development, targeted customer initiatives and collaboration within the group and with partners.

The portfolio of green loan products is well established and was extended in 2021. Energy classification of objects has been implemented making it possible in future to measure and monitor the loan portfolio's climate footprint. Through its collaboration with EiendomsMegler 1 Midt-Norge, Retail Banking has developed concepts with a view to encouraging developers and consumers to take green initiatives and make green choices. A successful collaboration along similar lines has been established with SpareBank 1 Kreditt with a view to offering appropriate counselling and solutions for customers in financial difficulties.

In the agricultural sector Retail Banking wishes to be a driver for the success of Landbrukets klimaplan ('climate action plan for agriculture'). Product development and advice supporting sustainable management of natural resources, sustainable production on farms and cooperation with business and industry will work to that end. The bank will by that means encourage customers and business connections to size up the current sustainability of their business and to consider how to adapt for the green transition. The stewardship precept is a mainstay: a farm property should be passed on in a better state than when the present holder took it over. This creates the basis for a long-term perspective, investment and environment-friendly management. With a view to strengthening financial advisory capabilities, the agricultural sector has established closer collaboration with SpareBank 1 Regnskapshuset SMN which offers both specialised banking and accounting competencies in agriculture.

## Responsible credit practices – Corporate Banking

In 2021 SpareBank 1 SMN took its systematic work on responsible lending to corporate clients a stage further, and the board of directors adopted a new sustainability strategy. Work continues on new credit policy rules that impose expectations and requirements with regard to clients' ESG standards and when financing investments.

Mapping of ESG and environment standards at major loan clients is well under way on a sector by sector basis. Work is also ongoing to implement a tool to simplify mapping of all types of businesses regardless of sector. Credit policy rules and mapping are based on the EU taxonomy. In sectors where the taxonomy currently does not provide guidelines, the group's industry experts are consulted.

The supply of relevant information is to some extent limited, due both to the absence of government reporting requirements and to wide variation in customer awareness. For the time being SpareBank 1 SMN

relies on urging businesses to compile and share information and data. On a positive note, the bank sees a gradual increase in customer awareness through the dialogue that arises in connection with information gathering.

All those involved in granting credit to businesses, 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. To that end all credit staff undergo continual training, and those principles guide the purposes for 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 is not in a dominating position.

SpareBank 1 SMN does not wish to finance businesses or projects that do not operate in keeping with the bank's requirements, and existing corporate clients are expected to take steps to rectify any circumstances that breach those requirements. The bank is bound by loan covenants with existing clients, but 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 introduced, and the establishment of green purpose-based loan products is being considered.

In smaller credit cases, standard credit tools are employed. Where larger credit cases and exposures reviewed by the credit committees are concerned, standard questions on the client's sustainability status and progress are employed. Work is also ongoing to integrate a more detailed mapping and assessment of sustainability into the credit tool itself through control points linked to the theme. The authorisation system quality assures documentation of sustainability assessments. It is in above all when the credit committees come into play that these assessments receive attention and are quality assured.

Documentation of sustainability assessments is a theme of the internal audit, along with reviews of the ESG models and regular reviews of the quality of credit procedures. Credit strategy and guidelines, also with regard to sustainability, are reviewed at minimum annually.

## Responsible marketing of products and services

Providing sound, responsible advice in all life phases to private individuals and firms is absolutely central to SpareBank 1 SMN's customer offering and thus also to its marketing. The object is to enable clients to make good financial choices in the short and long term alike. To that end, SpareBank 1 SMN is illuminating a variety of financial themes in the corporate market, retail market and real estate agency spheres. 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 in terms of advice to ensure that the customer makes the right choices in the purchasing process.

In 2021, the Bedriftsløftet ('boost to businesses') and Bank+Accounts concepts were an important aspect of SpareBank 1 SMN's catering towards the corporate market. Both concepts aim to make it easier for firms to succeed, whether in the start-up phase or after a period of operation. The group contributes efficient administrative processes along with products and advisory services that help firms to grow in a profitable and responsible manner.

2021 saw a major focus on advisory services to the personal market both through advertising and the development of interdisciplinary teams at the branches, which in sum makes the best advice available to the customers all according to their needs. For personal customers there was also a focus on their ability to

make responsible decisions as regards green borrowing. In addition, SpareBank 1 SMN launched Mitt klimaspor ('my climate track') in the digital bank which allows customers to view their climate footprint based on their consumption and transactions.

In the field of digital marketing the bank put greater emphasis on information and tips to customers in existing customer relationships in 2021. This may be tips on how to make smarter use of the bank, on the qualities of products and services of which the customer may not be aware, and which may help to improve the customer's financial situation in the short or long term.

Before SpareBank 1 SMN launches or distributes products or services, it assesses them for their impact on the target group concerned. Based on a systematic risk appraisal, independent assessments are obtained in relation to law, data privacy, security, ethics and intelligibility for the target group. In addition, all marketing activities are quality assured under data privacy and GDPR requirements.

Our policy on responsible marketing is available in our sustainability library at [smn.no/sustainability](https://smn.no/sustainability).

SpareBank 1 SMN recorded no breaches of, or complaints regarding, marketing activities in 2021.

## Personal data protection

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/personvern](https://smn.no/personvern) and are enshrined in our data privacy policy.

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.

In 2021 the group sought to strengthen and improve its data privacy effort and to build a robust data privacy setup internally and in interaction with SpareBank 1 Utvikling which is our most important data processor. The ambition for 2022 is to continue the implementation of the new data privacy setup, conduct training programmes and continue efforts to close identified gaps.

SpareBank 1 SMN has a low threshold for reporting breaches of personal data security to the Data Inspectorate. The group received two complaints from customers related to personal data security in 2021, and reported nine 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 2021.

## Information security

In 2021 SpareBank 1 SMN, like the financial industry in general, noted an increase in malicious attacks on our infrastructure and services. The group also continues to experience 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 new security solutions geared 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 a particular priority.

SpareBank 1-alliansen's information security policy 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. Outsourcing of critical or important services is considered by the board of directors and reported to Finanstilsynet (Norway's Financial Supervisory Authority). Continual monitoring of the bank's systems is delivered by the department for operative information security in 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 the internal and external audit functions alike under those regulations.

Responsibility for data and cyber security rests with the IT and Security Department at SpareBank 1 SMN. The department comprises 19 FTEs. With formal responsibility for the data and cyber security area, the department also largely performs the operative tasks. Parts of these tasks 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 for backup 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's services at [smn.no](https://smn.no).

## Preventing economic crime

Economic crime related to money laundering and terrorist financing threatens world security and the global economy and has become a societal problem that undermines established systems in democratic and well-functioning welfare societies like Norway. Attempts to commit money laundering and fraud against the bank's customers are ever more sophisticated and increasingly carried out by criminals operating digitally across national borders. This, in combination with a growing number of financial actors, cross-border transactions and new products and services, has led to a non-transparent market and has had major consequences for local communities, individuals and businesses.

SpareBank 1 SMN is under a mandatory obligation to implement measures to prevent and expose money laundering and terrorist financing under the legislation and international standards in force at any time. In

order to adapt to the changes, the group made a considerable effort in 2021 to identify and assess the bank's risk of money laundering and terrorist financing and adjusted its procedures and process descriptions accordingly. Transactions are monitored on a continuous basis, and ongoing and extended customer due diligence is carried out with a basis in a risk-based approach designed to uncover unusual or suspicious transactions. Anti-corruption forms part of the anti-money laundering effort.

In addition internal controls are conducted in the business lines along with compliance controls to verify that the risk assessment is satisfactorily geared and documented to the risk in question. Deviations and improvement measures are continuously assessed and reported quarterly to the board of directors of SpareBank 1 SMN.

In addition to the law requirements mentioned, SpareBank 1 SMN recognises its dependence on customers' confidence in the bank's ability to handle matters related to economic crime in an effective and orderly manner. In order to further strengthen efforts in this area, the Economic Crime Department was established in November 2021. SpareBank 1 SMN will in 2022 continue the work done in 2021 and will seek through a closer focus on data and analysis to secure technological solutions and processes that strengthen the group in its fight against fraud, money laundering and terrorist financing in the future.

Staffing was strengthened through the year and in 2021 a total of 61,117 transactions were identified for further checks by the transaction monitoring function. 257 cases were reported to the *National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim)* and 20 cases were taken in for analysis by Økokrim.

### **Strategic basis**

SpareBank 1 SMN has clear procedures and a governing document designed to assure compliance with the anti-money laundering legislation, including an anti-corruption policy. The head of Economic Crime reports quarterly to the board of directors.

### **Responsibility for the area**

The anti-money laundering officer and the head of Economic Crime hold overarching responsibility the bank's handling of matters related to economic crime.

### **Objective of the area**

The objective is to guard against and prevent misuse of the financial system for money laundering and terrorist financing purposes, to safeguard the bank's customers against exposure to fraud, to prevent the bank's customers exposing others to fraud, and to prevent fraud against the bank itself.

### **Training**

SpareBank 1 SMN worked continuously in 2021 on training and attitude-moulding measures for all managers and employees. Efforts are also ongoing to put in place a structured, overall training plan.

### **Statistics**

61,117 transactions were identified for further checks in 2021 and 257 cases were reported to Økokrim. 20 cases were taken in for analysis by Økokrim.



## Anti-corruption

Corruption is a form of economic crime that is destructive for society as a whole and undermines lawful business activity and honest competition. As a financial services group, SpareBank 1 SMN acknowledges its dependence on the trust and confidence of its customers and the market, and its aim is that the bank should be recognised for the high ethical standard of its staff members and elected officers.

Zero tolerance of any form of corruption is enshrined in the group's ethical guidelines.

*“Corruption is not tolerated, whether 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 held personally liable.”*

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 the group's clients or suppliers, and that employees shall maintain a conscious alertness to attempted corruption and any form of facilitation payment.

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

All employees are familiarised with the guidelines regarding anti-corruption through various training and attitude-moulding programmes. Should the guidelines nonetheless be breached, sanctions will be imposed on the individuals concerned. The bank operates an anti-corruption policy which describes the most important elements of the work of preventing and combating corruption and unethical conduct. These include adequate procedures and systems for whistleblowing and exceptions handling in connection with corruption.

There were no reports of corruption or suspected corruption at SpareBank 1 SMN in 2021.

### **Strategic basis**

Ethical guidelines and an anti-corruption policy which defines corruption, the group's stance on corruption, how corruption is to be followed up and who has responsibility in the respective areas.

### **Responsibility for the area**

The executive director of Technology and Development has overarching responsibility for the group's anti-corruption effort.

### **Objective of the area**

The group has zero tolerance of any form of corruption and works proactively to make this known to employees, customers, partners and shareholders. Corruption is also combated through the anti-money laundering effort.

## Training

SpareBank 1 SMN provides training and guidance to all employees to enable them to assess the risk picture for corruption, recognise indicators of corruption or attempts at corruption, and on how they should fulfil their obligations in accordance with policy. In autumn 2021 all employees attended an 'ethics week' in which e-learning and reflection tasks related to corruption were part of the programme.

## Compliance

SpareBank 1 SMN shall ensure that the body of rules and regulations governing its activities is identified, implemented, complied with and monitored. In the bank it is the compliance function that is responsible for uncovering and preventing risk related to compliance with external and internal rules. Its task is to perform risk assessments, to monitor and test compliance with rules and regulations, and to implement training activities and provide 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 contains 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 regulatory framework applying to banking and finance is wide ranging and continually changing, so too in 2021. In 2021 there was a particular focus on compliance with the regulatory framework governing anti-money laundering, personal data protection and saving. This will continue into 2022, 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 and new requirements in the sustainability sphere.

The bank's compliance function is also responsible for ensuring that the respective subsidiaries have in place functions that provide satisfactory internal controls pursuant to applicable requirements.

## Sustainability in property and procurement

### Property

SpareBank 1 SMN collaborates closely with Kjeldsberg Eiendomsforvaltning (KEF) in the fields of property management and energy and environmental monitoring of the group's business. As part of this collaboration KEF gathers energy and environmental data for the building stock at a number of SpareBank 1 SMN's locations, and building operators can be rapidly called out to the locations to repair any faults. The collaboration represents a unique duality in the management of the group's properties inasmuch as energy-intensive faults are rapidly uncovered and repaired without need of bureaucratic paperwork. Moreover, absolutely clear requirements are set in the collaboration between SpareBank 1 SMN and Kjeldsberg Eiendomsforvaltning in terms of annual energy reduction targets for the property portfolio which support the group's sustainable development strategy.

One energy efficiency initiative was implemented at the Head Office in Søndre gate in 2020/2021. This was in collaboration with building owner Entro and with support from Enova, a state-owned enterprise working for Norway's transition to a low emission society. This initiative yielded an energy reduction of about 20 per cent compared with the reference year 2019.

SpareBank 1 SMN has for several years used 'Environmental Lighthouse' as a tool for reporting sustainability parameters at area level. In 2021 it strengthened the tool's relevance and utility for the group. This was achieved by restructuring the oversight of the branch network and ensuring that banking and finance requirements that govern the bank's loan and investment portfolio are included in the follow-up performed through Environmental Lighthouse. The bank has accordingly decided on the establishment of a number of measuring points reflecting what portion of the portfolio can be classified as green/sustainable. The required reporting and follow-up at the local level has been well received among the bank's employees in their work with Environmental Lighthouse and will serve to boost internal awareness of and motivation with regard to the core business's sustainability. Furthermore, an 'Environmental Lighthouse index' has been devised in connection with the banking and finance criteria to show how the bank applies the criteria, and also to provide an easy-to-grasp tool to navigate relevant documentation. The index is available in our sustainability library at [smn.no/sustainability](https://smn.no/sustainability)

An aim of SpareBank 1 SMN is to encourage customers and employees to make conscious, personal and professional choices that contribute to make the group and the group's products more sustainable. A measure being planned through the ongoing processes is to actively turn SpareBank 1 SMN's procurement role to account by supplementing invoice details with questions on suppliers' climate and environmental profile. The bank seeks by this means to actively encourage suppliers to obtain their own environmental certifications and climate accounts, and set other objectives in keeping with the Paris Agreement.

### **Procurement**

SpareBank 1 SMN's procurement policy requires all purchase contracts to include documentation of corporate social responsibility. 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, 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 any 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. A standard enclosure on SpareBank 1 SMN's corporate social responsibility shall be a part of all contracts underlying SpareBank 1 SMN's purchases.

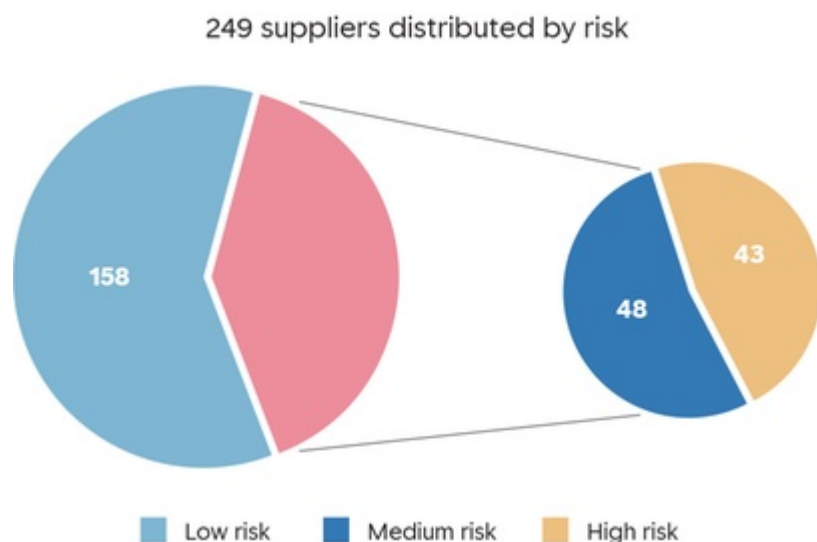
SpareBank 1 SMN is a substantial purchaser of goods and services, both locally and as an alliance bank. Sustainability in the group's purchases involves promoting suppliers' awareness of their supplier chain and of the effort they make to reduce negative impacts on the environment, social conditions 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. This means that thorough ESG assessments have been established in all procurement practice. In order to perform 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 formulated.

### 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 or ethical business practices.

These 91 suppliers have now received closer attention and been asked to report their guidelines as to the environment, social conditions and ethical business practices in their trading. They were also asked to provide 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:



*158 suppliers considered to pose low risk are not being followed up*

*48 suppliers considered to pose medium risk are not being followed up*

*43 suppliers considered to pose increased risk are being followed up*

Of 43 suppliers, three main categories were selected for closer follow up:

- IT-related procurements: IT equipment
- Administrative procurements: Furniture
- Largest suppliers: IT services and consultants

In autumn 2021 an internal audit project was conducted in the procurement area. The object of the project was to evaluate the bank's procedures for entry into contracts, authorisations, along with its ongoing management of existing agreements. In addition, an assessment was performed of the quality of internal controls related to the establishment of new suppliers. Once the final report becomes available its findings will be incorporated in the continuing improvement effort in the procurement area in 2022.

### Conduct and results of the surveys

Two in-depth surveys were conducted in 2021 in two of the above procurement areas: IT equipment and IT services. The suppliers were asked to document their overarching guidelines, action plans and actual risk as regards sustainability in the supplier chain. All suppliers had guidelines in place whereas fewer had action plans. SpareBank 1 SMN received little information from the suppliers as regards *actual risk*.

Seeing which *specific* areas the individual supplier ought to focus on in order to reduce risk also proved to be a challenge.

Based on the survey findings, a focal area of the action plans both of SpareBank 1 SMN and SpareBank 1-alliansen in 2022 will accordingly be to follow up on and collaborate with the suppliers to identify actual risk in the supplier chains.

In addition, new surveys will be conducted of further suppliers and categories.

Goals for 2021	Results 2021	Goals for 2022	Goals for 2022-2024
Finalise action plan and follow up on certain categories in Q1	Action plan finalised	Compliance with the Transparency Act	Evaluate and further develop the work on sustainability in procurement
Follow up on other suppliers Q2 – Q4	Certain categories followed up on in Q2-Q4	Follow-up of certain categories	Improve systems and follow-up of suppliers
Introduce system support in the sustainability effort	System support introduced	Work with new suppliers	

### Circular approach

Inasmuch as SpareBank 1 SMN forged closer links with the subsidiaries in 2020/2021 as part of its group strategy, it is natural for the group to operate under the same sustainability regime when entering into new purchasing agreements. This enables the group to put substantial weight behind its requirements for sustainable solutions. Among the procurements resulting from the new group strategy in 2021 is Loopfront – a database promoting reuse. SpareBank 1 SMN uses the system to reallocate fixtures and fittings across the branch network instead of purchasing anew.

### 100% definition

In parallel with SpareBank 1 SMN's work in the alliance, the group has, in line with the requirements as to environmental lighthouse certification, carried out a review of its own operating suppliers. Work on identifying suppliers that are environmentally certified under the ISO 14001, EMAS or Environmental Lighthouse schemes started in 2019.

As a result of the group's survey and follow-up of its suppliers, 95 per cent of the group's operating suppliers were environmentally certified as at 31 December 2021. Follow-up is an ongoing activity and SpareBank 1 SMN's aim is for 100 per cent of its operating suppliers to be environmentally certified by the end of 2022.

## SpareBank 1 SMN'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) and the group's risk management principles. The group defines

climate risk as the risk of financial loss or weakened reputation which can either be related directly to climate changes (physical risk) or is a consequence of adjustments to a low-carbon economy (transition risk).

### **Management**

Responsibility for managing climate risk follows the ordinary responsibility structure in the group, in accordance with the group's risk management policy.

The board of directors of SpareBank 1 SMN has overarching responsibility for climate risk management through its approval of governing documents and follow-up of risk reporting. The risk and audit committee follows up the group's work on climate risk and submits its recommendations to the board of directors. Climate risk is reported on to the board of directors at least quarterly.

The group strategy defines sustainability as one of five main priorities in the period 2020-2023. As a step in the process of incorporating sustainability into the entire business, the group's sustainability strategy was adopted in 2021. The strategic guide for the group's work on climate risk is its role as driver of green transition among customers, partners and the business sector in the group's market area.

Identification and management of climate risk will be integrated into ordinary operations. A continuous effort is under way to incorporate climate risk in the group's strategies, policies, analyses, work procedures and in employee training.

### **Climate risk in the credit business**

Sustainability and climate risk are at centre stage of the credit strategy, which concretises ambitions related to the identification, measurement, management and follow-up of climate risk. The objectives will be attained through prioritised activities in the group and in collaboration with the banks making up SpareBank 1-alliansen. Work done in 2021 included:

- Assessment of sustainability and climate risk integrated into all sector analyses. For 2021 agriculture and commercial property were updated.
- Sustainability document for agriculture: the group's action plan for the transition to sustainable agriculture.
- Development of ESG classification tools for fisheries, commercial property and offshore.
- ESG classification of significant clients in the fishery and commercial property sectors. This is under way for offshore.
- Favourably priced green financing products for customers that meet climate requirements:
  - Green mortgages
  - Green house-building loans
  - Green agricultural loans

In the case of corporate clients, sustainability will be appraised in all credit cases, and is a control point applied by the group's credit committee. An ESG report is included in finalised credit cases.

The group's work on climate risk continues in 2022. Both progress made and challenges faced in this process are to be reported to the board of directors on a regular basis.

### **Greenhouse gas emissions**

The group is in the process of transitioning its own business in line with the goals of the Paris Agreement, with the aim of reducing greenhouse gas emissions from its own business by 8 per cent per year, and reports on this in its energy and climate account for 2021. This year the quality of measurement is boosted by use of the Klimakost model from [Klimakost.no](https://www.klimakost.no) (an environmentally extended input-output model). The group's direct emissions are relatively small but the symbolic value is important and helps the group to impose ESG requirements on suppliers and customers.

The group wishes to reduce its customers' greenhouse gas emissions. In 2021 the group accordingly joined the Partnership for Carbon Accounting Financials (PCAF). This is a global collaboration between financial institutions that is working to harmonise assessments and information on greenhouse gas emissions and is funded by loans and investments. The collaboration provides access to a framework, data, guidance and partners that enable the group to estimate greenhouse gas emissions in the loan portfolio under the applicable industry standard. Internally the estimates will be used to establish emission targets and to prioritise activities in the green transition effort. The information will also strengthen risk management by indicating customers' vulnerability to transition risk. SpareBank 1 SMN will publish the estimates of greenhouse gas emissions in the loan portfolio once the quality of the analysis is adequate to that end. The loan portfolio's climate burden is significantly larger than the group's own emissions.

## SpareBank 1 SMN's energy and climate account

As part of SMN continual effort to reduce emissions of greenhouse gases, the group has prepared an energy and climate account for 2021, based on the 'Klimakost' methodology. (See [Klimakost.no](https://www.klimakost.no) for more information on the methodology.) 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> equivalents. The sum of all emissions is termed the organisation's climate footprint.

The energy and climate account is drawn up under the GHG Protocol Corporate Accounting and Reporting Standard and the GHG Protocol's Corporate Value Chain (Scope 3) 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 owned by the group or over which it has operational control. Scope 2 refers to indirect emissions stemming from purchased energy consumed by the organisation. Scope 3 refers to indirect emissions stemming from purchased goods or services. These are emissions which can be linked indirectly to the organisation's activities but which are not directly owned or controlled by the organisation.

Calculations of the group's CO<sub>2</sub> emissions, both overall and per scope, are this year based on the Klimakost model developed by Asplan Viak. The model utilises an environmentally extended input-output model for the Norwegian economy to calculate a life cycle emission factor for the purchase of 1 NOK's worth of goods or services from a given sector. Based on this methodology an emission factor is computed per NACE sector which is then used to calculate the group's CO<sub>2</sub> equivalents per cost account.

**Second 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. An energy and climate account was prepared for the first time at group level for the 2020 annual report. The group is working in a systematic and targeted manner to comprehend its influence on its surroundings.

In order to strengthen the knowledge base for our action plans, we have revised the methodology used to calculate the group's direct and indirect climate footprint. The group's energy and climate account for 2021 is prepared with a basis in Asplan Viak's Klimakost tool. The methodology is used by all companies in the group and will provide a more detailed picture of the group's significant emission sources. By utilising audited accounting information (and volume data) the method will help to streamline working processes and to follow up existing control systems. Data for jointly controlled businesses and related companies is not included. This is due to the level of difficulty involved in assembling correct data. In the longer term, related companies and jointly controlled businesses will also be included.

**Consumption and drivers of climate footprint**

The 2021 energy and climate account shows that SpareBank 1 SMN's total climate footprint amounted to 12,364.66 tonnes of CO<sub>2</sub> equivalents. The group's consumption relates mainly to consumption of energy, purchased goods and services, depreciation and business travel.

A complete energy and climate account for both the parent bank and the group is appended to this annual report.