

Introduction

SpareBank 1 SMN aims to stimulate a sustainable development of our region. This is laid down as a strategic priority and is an integral aspect of the group strategy for the current period. The group's sustainability strategy is designed to render our financial goals achievable and to create value for our customers, owners and employees through being a:

- Driver for the green transition
- Partner for the inclusive development of society
- Guide for a responsible business culture

The strategic objective for our climate readjustment is to reduce the group's total greenhouse gas emissions by 90-95 per cent (achieve 'net zero emissions') by 2050. A key milestone in this effort is to cut emissions by 50-55 per cent by 2030. As a natural follow-up to this ambitious objective of net zero emissions, we have in 2023 committed to the Science Based Targets initiative (SBTi). Information on what our commitment entails for SpareBank 1 SMN is explained more fully in the chapter entitled "Reducing the carbon footprint in loan portfolios".

Sustainability is integrated into all business lines and support functions in the group, including day-to-day operations, customer offering and distribution of community dividend. We view sustainability both as a financial risk and a business opportunity. Members of the group management team have responsibility for achieving strategic sustainability goals in the areas for which they are responsible. The group's sustainability efforts are regularly reviewed by the bank's board of directors and by the management boards of the group's subsidiaries. Relevant steering documents are publicly available in our Sustainability Library at smn.no/barekraft and are referred to under each significant topic in this annual report.

The operational work on sustainability is divided into three areas:

- Day-to-day operations
- Customer offering
- Community dividend

We conduct a continuous stakeholder dialogue with an ever growing network of stakeholders. This is part of our endeavour to ensure a coherent and long-term approach to our creation of value for equity certificate holders, customers, employees and the community. A summary of the most significant stakeholders is shown below. More information is available in the document Stakeholder Dialogue in the sustainability library at smn.no/barekraft.



Figure 5: Overview of SpareBank 1 SMN's stakeholders

The dialogue with stakeholders is in the form of in-depth interviews, digital questionnaire surveys and direct dialogue. We also attach importance to information gained from other interaction with stakeholders, for example general meetings, customer surveys and meetings, participation in committees and initiatives addressing a broad range of societal issues.

In addition to the continuous stakeholder dialogue we perform a double materiality analysis, updated every two years, in which we map environmental, social and financial materiality. Our framework conditions change in step with the development of society, and the materiality analysis, and its process, helps us to achieve conformance between our goals and focal areas on the one hand, and the expectations placed on us by stakeholders on the other.

The group's double materiality analysis is a foundation for achieving both the group's financial goals and its sustainability goals. In addition the analysis creates the basis for our compliance with existing and new regulatory requirements. The analysis identifies the most important themes of our impact on the environment and society, and society's financial impact on SpareBank 1 SMN. It also helps us to identify those UN sustainability goals where our impact is greatest.

Our analyses are publicly available in the Sustainability Library. Figure 4 shows the methodology underlying the preparation of our double materiality analysis.



Figure 6: Double materiality analysis

Our obligations

We support the following national and international agreements in our work on integrating sustainability into the business:

- UN's sustainability goals
- Paris Agreement
- ILO Conventions 100 and 111
- International Covenant on Economic, Social and Cultural Rights
- Working Environment Act
- Equality and Anti-Discrimination Act

We have signed and/or endorse the following principles and standards:

- UN Principles for Responsible Banking (UNEPFI)
- UN Global Compact (UNGC Norway)
- Partnership for Carbon Accounting Financials (PCAF)
- Task Force on Climate-Related Financial Disclosure (TCFD)
- Global Reporting Initiative (GRI)
- Science Based Targets initiative (SBTi)
- Eco-Lighthouse Foundation
- Guide Against Greenwashing

See the enclosed overview of SpareBank 1 SMN's memberships of industry, lobby and other Norwegian and international organisations.

Our focal areas

The latest update of our double materiality analysis, which was carried out in autumn 2022, showed that many of the expectations from 2020 still applied at the same time as some new themes came to the fore. Based on this analysis we identified four focal areas with associated material themes:

- Responsible lending and investments
- Advisory services and customer offering
- Sustainable transition of Mid-Norway
- Sustainable transition in SpareBank 1 SMN

These focal areas form the basis for our key performance indicators (KPIs) which function as drivers for our transition. Goal attainment and status as regards these KPIs are reported to the group management and the bank's board of directors on a quarterly basis.

This year we have targeted our work towards completing the KPI table. Completing the KPIs has required new tools, data points and work processes, and the work has taken somewhat longer than envisaged. The overview below summarises key figures for each focal area with appurtenant themes.

	Target 2023	Result 2023	Target 2024
Responsible lending and investments			
Losses due to fraud ¹⁰⁾	< 10.000.000 NOK	15.660.000 NOK	< 22.500.000 NOK
Share of managers and employees having completed e-learning course in AML and anti-terrorist financing	100 %	97 %	100 %
Corporate loan volumes with ESG-score	75 %	87 %	90 %
Retail loan volumes with ESG-score ¹⁾	20 %	0 %	20 %
Share of loans that meet the requirements for green bonds	Under development ³⁾	19,1 % ²⁾	Under development ³⁾
Total greenhouse gas emissions from loan portfolios	1.000 (1000 tCO ₂ e)	1.034 (1000 tCO ₂ e)	SBTi ⁴⁾
Share of homes in the loan portfolio with energy performance certificates	90 %	42 %	70 %
Share of commercial properties in the loan portfolio (>1.000 m ²) with energy performance certificates	75 %	21 %	90% of new grants
Advisory services and customer offering			
Sales volume of products and services with an environmental benefit ⁵⁾	2.000.000.000 NOK	2.516.000.000 NOK	3.000.000.000 NOK
Sales volume of products and services with a social benefit ⁶⁾		0	
Category score for sustainability in WinningTemp ⁷⁾	7.4	7.3	8
Share of managers and employees having completed e-learning course in ethics	100 %	94 %	100 %
No. of documented complaints of breaches of data privacy or loss of customers data	0	12	0
Sustainable transition of Mid-Norway			
No. of participants in meeting places and innovation activities	7.000 participants 250 entrepreneur- and youth enterprises	5.790 participants 300 entrepreneur- and youth enterprises	6.000 participants 250 entrepreneur- and youth enterprises
No. of participants in competence and development programmes	50-100	270	500
Share of large corporate customers with credit commitments who have carbon accounting reports ⁸⁾	25 %	24 %	25 %
Sustainable transition in SpareBank 1 SMN			
Share of Group's significant procurements (> NOK 100,000) from suppliers with carbon accounting reports	50 %	68 %	80 %
Share of managers and employees having completed e-learning course in information security	100 %	90 %	100 %
Category score for diversity, inclusion and equality in WinningTemp ⁹⁾	N/A	N/A	N/A
Total greenhouse gas emissions from day-to-day operations	16,4 (1000 tCO ₂ e)	18,5 (1000 tCO ₂ e)	SBTi ⁴⁾

- 1) The model for ESG-scoring of our retail loan portfolio is at the reporting date not yet developed by the SpareBank 1 Alliance.
- 2) Based on existing framework per januar 2024.
- 3) An official definition of the 15 % most energy effective buildings is not available, and access to reliable data is necessary to ensure a robust approach.
- 4) Our targets related to greenhouse gas emissions is as of 2023 under development in conjunction with our commitment to SBTi.
- 5) Products and services with an environmental benefit is defined as green products from our product hierarchy. This deviates from the EU Taxonomy. Our disclosures related to the EU Taxonomy can be found under the focal area "Responsible lending and investments".
- 6) Our customers offering is a result of demands from the municipalities in our portfolio, and we have no specific products and services serving a social benefit as per 2023.
- 7) Our employee development tool.
- 8) "Large corporate customers" exceed two out of three following criterias: turnover > 400 MNOK, balance sheet total > MNOK 200 and number of employees > 250.
- 9) We have updated the sustainability module in WinningTemp, and this key performance indicator is now a part of the key performance indicator "Category score sustainability in WinningTemp".
- 10) Losses due to fraud is defined as expenses due to fraud committed to the banks customers, repaid by the bank

Up-coming statutory requirements and regulation

Financial undertakings' reporting requirements will burgeon in the years ahead, much due to the financial sector's important role in the transition to a low emissions economy in Norway as elsewhere. In 2023 SpareBank 1 SMN took several steps to prepare to accommodate the new regulatory requirements as and when they occur, including:

- Strengthening and co-locating the group's specialist sustainability units.
- Rescheduling the updating of the group's double materiality analysis to the first quarter 2024.
- Developing the first version of a group-wide framework for reporting and publishing sustainability information.
- Revising the mandate for the group's ESG committee in which competence development as regards reporting and the reporting framework is one of several updates.
- Organising courses in how to implement up-coming reporting requirements and standards.
- Informing the audit committee about wider responsibilities and tasks imposed by new sustainability reporting requirements.

Sustainability Directive

The Corporate Sustainability Reporting Directive (CSRD) entered into force in the EU on 1 January 2023, replacing the Non-Financial Reporting Directive (NFRD) with effect from January 2024. The Securities Trading Act Committee delivered its report on implementation of the CSRD in Norwegian law, and Norway is expected to follow the same timetable as the EU. SpareBank 1 SMN will be subject to a reporting requirement for the reporting year 2024, with its first report due in 2025.

The CSRD is operationalised through a comprehensive set of reporting standards termed European Sustainability Reporting Standards (ESRS) which cover material themes within the EU's Green Deal in the environmental, social and economic context.

As a stock-exchange-listed credit institution, we are encompassed by the first 'wave' of reporting for the reporting year 2024. We have launched a number of initiatives in-house to ensure our readiness to accommodate the requirements upon their entry into force in Norway.

We have in 2023 carried out a project to map and understand the consequences of up-coming statutory requirements and regulation. The working group has comprised experts from the sustainability department at SpareBank 1 Regnskapshuset SMN along with key personnel from risk management, the group accounting department and compliance. The mandate was to draw up a groupwide framework for the reporting and publishing of sustainability information.

As a part of the SpareBank 1 Alliance we also maintain a close dialogue with other banks in the SpareBank 1 Alliance in order to identify shared data needs, assess joint initiatives and create a common understanding of how the legislation affects us as banks. Several initiatives have already been launched related to understanding the ESRS and the data needs to which ESRS gives rise.

The comprehensive reporting requirements ensuing from the CSRD have introduced a need for further reorganisation and distribution of the responsibility for reporting on sustainability within the SpareBank 1 SMN Group. For us the operational aspect of sustainability has throughout been strongly imbedded in the respective specialist and business lines in the group, while reporting and structuring has belonged under Group Finance and Governance.

An ambition is to utilise the requirements of the CSRD to gear up our structures, our employees and our business model in a direction that promotes long-term sustainable value creation. The broad, complex, and to some extent radical requirements of the CSRD offer both an opportunity, but also a need, to further involve the group's specialist and business lines in the reporting. In the course of 2024 we will to a greater degree involve key personnel in the specialist and business lines as contributors to the preparation and updating of guidelines, action plans, key figures and objectives.

Group Finance and Governance will retain overall responsibility for understanding and implementing the legislation and any changes and updates, and key personnel in the specialist and business lines will handle specific tasks related to various material themes. We believe that this type of organisation puts the group in a better position to accommodate up-coming statutory requirements and regulatory measures.

Updating of SpareBank 1 SMN's double materiality analysis

We have since 2020, with a two-year interval for updating, prepared a materiality analysis for the group. The update helps to ensure that we always take into account changes in our stakeholders' perspective and preferences. In 2020 we prepared a simple materiality analysis with a focus on impact materiality - how SpareBank 1 SMN impacts the climate, environment and people.

When updating the materiality analysis in late autumn 2022, we opted to broaden our perspective with the inclusion of financial materiality as a dimension of our materiality analysis. This resulted in a double materiality analysis which formed the basis for the content and structure of our reporting for 2022. This structure is retained in 2023.

A double materiality analysis will now become mandatory for the first time through the implementation of the Corporate Sustainability Reporting Directive (CSRD) in Norwegian law. The double materiality analysis forms the foundation for our reporting in keeping with the ESRS, and the process, and the result, are important for maintaining our focus in the years ahead, both in our reporting and governance. We have

carried out a preliminary mapping of our present double materiality analysis in terms of topics and subtopics to identify which material themes are most likely to be relevant for us to report on when the CSRD enters into force.

Our ambition is to update the group's double materiality analysis early in 2024. With the experience and competence we gained from the process in autumn 2022, we feel well equipped to prepare a double materiality analysis in line with the new requirements of ESRS. We are bringing this work forward in 2024 to ensure that guidelines, action plans, KPIs and objectives are in line with the ESRS requirements.

EU Taxonomy

The EU Taxonomy took effect in Norway on 1 January 2023 with the first reporting due in 2024 (for the reporting year 2023). As a credit institution we are a highly important actor in the allocation of capital to sustainable economic activities, and are accordingly a part of the first wave of reporting on the Taxonomy in Norway.

The Taxonomy is the EU's classification system for identifying sustainable economic activities, and sets criteria for what economic activities are to be considered, or not considered, sustainable. The Taxonomy comprises six environmental objectives, of which the first two (climate change mitigation and climate change adaptation) apply to reporting in 2023. The four remaining environmental objectives are not expected to be incorporated in the EEA Agreement before year-end, and will only become reportable for the reporting year 2024.

Other work on the EU Taxonomy, including methodology, calculations, assumptions, challenges and opportunities are described more fully in the focal area entitled 'Responsible lending and investments'.