Responsible lending and investments

Lending to households and businesses is the group's core activity. A consistent expectation from our stakeholders is that lending and investment activity should stimulate local, sustainable business development and value creation. Four material themes feature in this focal area:

Material themes	Objective	Key figures	Responsibility
Prevent and combat economic crime and corruption	Ensure compliance with laws and regulations through updated risk assessments and effective combating of economic crime	▪ Losses due to fraud ▪ Share of managers and employees having completed e-learning course in anti-money laundering and terrorist financing	Director, Technology and Development
Secure long-term profitability and competitiveness	Strengthen the group's growth and profitability through differentiated pricing of climate risk and active portfolio management	▪ Loan volume to corporate and retail customers with ESG score ▪ Share of loans that meet the requirements for green bonds	Director, Corporate Banking Director, Retail Banking
Reduce carbon footprint in loan portfolios	Reduce the group's financial risk by integrating climate and natural impact into advisory services, risk management and credit models	▪ Reduction of total CO2 emissions from loan portfolios in line with transition plans towards net zero by 2050 ▪ 8% annual reduction of CO2 emissions in day-to-day operations	Director, Group Finance and Governance Director, Risk Management
Stimulate green transition for retail customers and corporate customers	Actively promote reduction of customers' energy consumption through advice, product development and courses offered	▪ Share of dwellings in the loan portfolio with an energy rating ▪ Share of commercial properties in the loan portfolio (>1,000m2) with an energy rating	Director, Corporate Banking Director, Retail Banking CEO, EiendomsMegler 1 Midt-Norge

Table 2: Responsible lending and investments – material themes

Preventing and combating economic crime and corruption

Our approach to the theme

Economic crime committed by way of banks and financial institutions is growing in scale, and the continual professionalisation of criminals means that criminal activities are increasingly complex. For us, prevention and combating of economic crime and corruption are a pivotal task. This task is required of us by law, and supports the trust and confidence placed in Norway's welfare society and financial industry both nationally and internationally. The above theme is material to all our stakeholders, and we devote considerable resources to the work involved.

Work on prevention and combating of economic crime

Economic crime signifies unlawful, profit-motivated acts that impact individuals, businesses and society, and may have negative consequences for confidence in Norway's welfare society. Moreover, it appears from various threat assessments that banking and finance are increasingly vulnerable to employees who commit criminal acts alone or through close links to criminals.

As an ‘obliged entity’ under the anti-money laundering legislation, SpareBank 1 SMN has a statutory obligation to institute measures against money laundering and terrorist financing. On 1 January 2023 a new Financial Contracts Act entered into force designed to strengthen consumer protection. The Act assigns the bank a statutory obligation to cut down processing time for complaints related to fraud.

Many measures large and small have been taken to guard against, detect and deal with economic crime in 2023.

Strategic accountability with regard to economic crime

Most important guidelines: Group policy and overarching guidelines on money laundering, terrorist financing and sanctions, policy on internal malpractices and corruption.

Responsibility for the area: The head of the anti-economic crime unit is the bank’s anti-money laundering officer. The director of Technology and Development has chief responsibility for anti-fraud and internal malpractices and corruption.

Objective: To preserve the confidence of public authorities, customers, partners and competitors through prevention, detection and handling of transactions with links to money laundering, terrorist financing and other economic crime.

Fraud

Development and trends in 2023

The bank has noted an increase in fraud and attempted fraud against our customers in 2023. Overall figures for our customer-facing activities – from customer service centre, complaints department to units combating economic crime – show a continued increase in fraud compared with previous years. This is in line with reports from public authorities and bodies as well as other financial institutions in Norway in the past year.

In 2023 a marked trend has been an increase in fraud linked to fake investments and an increase in fraud linked to digital second-hand markets. We see a continued high incidence of phone scams involving seniors (so-called ‘Olga fraud’), at the same time as our security systems have prevented and halted a considerable number of attempted phone scams in 2023, compared with 2022.

Measures and anti-fraud efforts in 2023

In 2023 we updated our risk assessments in the fraud prevention area together with other Alliance banks as part of a long-term strategic enhancement of the anti-fraud effort in the SpareBank 1 Alliance. 2023 saw several major fraud cases in which the bank took a leading initiative at the national level with regard to the police and the prosecuting authority, and where the outcome of the cases has in large measure been beneficial to society. 2023 has also been a year in which we took a visible position in the media with a fraud prevention message. In addition we held a series of talks and customer meetings at local level whose focus was on advice and guidance on how to avoid being defrauded.

Expected development in 2024

In step with a steadily growing digital integration of society and further digitalisation of payment and financial services, we expect fraud committed against the bank and our customers to remain on a high and rising level in the coming year. On a general basis, digitalisation – as a positive force in society that increases values, reduces transaction costs and realises gains – will also open the way for transnational fraud, upscaling and intensification of attacks, effective sharing of criminal knowledge and new technology, as well as rapid changes in modus and attack vectors against banks and their customers. The growth of fraud must also be viewed in the light of a changing geopolitical picture: fraud undermines and weakens trust among citizens, and the trust citizens place in society's major participants, such as banks. This can serve the purposes of criminal actors.

Money laundering and terrorist financing

SpareBank 1 SMN is under a statutory obligation to implement measures to prevent and detect money laundering and terrorist financing. In our annual report for 2022 we wrote that our chief priorities in the money laundering and terrorist financing sphere were to improve processes and procedures, ensure compliance in connection with the merger with SpareBank 1 Søre Sunnmøre, and to acquire the next generation of anti-money laundering (AML) solutions. In addition, our framework for anti-money laundering, anti-terrorist financing and sanctions has been updated. A major survey of the risk posed by various types of correspondent banking connections has been carried out, and the quality and effectiveness of 'know your customer' processes in the personal market has been improved.

Our group policy and overarching guidelines in this area set requirements for internal control and communication procedures designed to ensure compliance with the anti-money laundering legislation. A total of 27,805 transactions were identified for further checks by the bank's transaction monitoring system. 610 cases were reported as suspicious to Økokrim's financial intelligence unit (FIU).

All employees underwent training activities in 2023. 97 per cent of assigned e-learning coaching in economic crime was completed, and specific training was provided to specialist units, both on a 'classroom' basis and through tailored e-learning and certification programmes.

Internal malpractices and corruption

Internal malpractices and corruption are destructive for society as a whole and undermine lawful business activity and competition. Involvement in internal malpractices and corruption can damage the group's business and reputation, and may result in criminal punishment, loss of contract or other financial loss.

Malpractice as a concept covers both criminal and non-criminal offences and may be committed through for example embezzlement, theft, fraud, corruption, breach of confidentiality or ethical guidelines.

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

The anti-corruption policy has been revised to cover all forms of internal malpractices. It has been reviewed by the board of directors and provides guides for the group's stance and work on preventing internal malpractices and corruption.

The most significant risks of internal malpractices and corruption that have been identified are vulnerabilities related to employees, misuse of accesses and exploitation of systems. Over the year a number of measures have been devised to map vulnerabilities and implement measures to reduce the risk of internal malpractices and corruption.

Our ethical guidelines make clear that employees must avoid entering into a relationship of dependence with the group's clients or suppliers. Employees' positions shall be registered and approved by HR.

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

The bank has whistleblowing procedures to ensure employees' right to report censurable circumstances. The whistleblowing procedures also apply where there is a suspicion of internal malpractices or corruption. Whistleblowing may be done anonymously. Four cases were reported in 2023.

Training
Each year all group employees undergo a mandatory ethics update as a means of promoting ethical awareness and professional integrity. The theme for the 2023 ethics week was impartiality and conflicts of interest. To date 94 per cent of our employees have completed the programme.

Relevant steering documents
The following steering documents are central to this theme:

- Group policy and overarching guidelines on money laundering, terrorist financing and sanctions
- Policy on internal malpractices and corruption
- Ethical guidelines

Ensuring long-term profitability and competitiveness

Our approach to the theme
Our long-term profitability and competitiveness are dependent on our successful achievement of a green transition in close interaction with our customers, suppliers and business partners. To that end, ESG scoring of corporate clients forms an integral part of the credit process. Corresponding tools will also be introduced for our retail customers. We have brought in a clear differentiation of loan-to-value ratios, loan instalment profiles and dividend payment potentials for companies, depending on how we view ESG risk at customer level. Through these changes in the credit process, the group's lending business will increasingly meet the requirements imposed on green bond funding.

Retail Banking
Our credit strategy is adopted by the bank's board of directors. The scope for sustainable lending is established in this forum and is operationalised through the bank's credit policy and framework for the lending business. This 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 is obliged to refuse loan applications where the purpose of the loan is unwarrantable, and in the case of customers with low debt-servicing ability.

In the group's updated materiality analysis, Retail Banking is considered to have greatest impact on the themes of households and agriculture. Finance granted to personal customers can have a positive impact on housing conditions, for example through the bank's role as a driver for the inclusion of low-income families in the housing market, and through offering other financial services with a positive effect on vulnerable groups in society, including our focus on a financial health team.

Retail Banking also has a driver role in the construction industry. This is through its partnerships with property developers and estate agents which can have a positive climate impact on construction projects and encourage a sustainable housing standard. Retail Banking has a focus on further developing its offering of green products, on coordinating with EiendomsMegler 1 Midt-Norge on concepts in the housing development sphere, and on encouraging housing developers to take account of house buyers' preferences as regards sustainability and by that means drive a green transition.

Lending to agricultural customers belongs under Retail Banking's portfolio, and includes the following segments: farming, forestry, animal husbandry, further processing of raw materials and provision of various services to farms. This is an important industry for us and is the bank's second largest industry portfolio. In terms of loan volume we are the second largest bank for agriculture in Norway. Our role under our agriculture policy is to assist in developing the region's agriculture. This implies a role in the evolution of the farm sector that is larger than merely being a supplier of capital.

We will by that means incentivise customers and business connections to weigh up the current sustainability of their own business and how they can adapt to the green transition. We will make it more attractive to opt for good, sustainable measures and solutions across our business lines. This will create the basis for long-term investments and environment-friendly management, and is in line with the stewardship precept: a farm property should be passed on in a better condition than when the present holder took it over.

In the course of 2023 we were given the opportunity to retrieve "estimated energy labels" from Eiendomsverdi. If these energy labels are approved for use, it will enable the energy status of many properties that lack energy data to be estimated. Hence only a small proportion of properties financed by us will be left without an energy label. This lays the basis for incorporating an advisory solution and ESG in credit assessments.

2023 was a demanding year for customers with large mortgages, large dependant burdens and low incomes. Our response was to introduce a financial health team – a measure designed to address the problem of unmanageable debt in a more coherent manner with a focus both on financial challenges and health challenges, and the reciprocal effect these issues can have on one another. This initiative is expected to help those of our customers who are struggling with unmanageable debt challenges.

Corporate Banking

Risk related to sustainability is an integral part of the credit assessment of our corporate customers, and is a routine element in credit cases and risk management. This type of risk constitutes credit risk on a par with other possible risk drivers. Under our credit strategy we work purposefully to reduce both ESG risk and greenhouse gas emissions from our loan portfolio in keeping with our goal of net zero emissions in our loan portfolio by 2050. We have prepared a document entitled "Guidelines for managing risk related to ESG" as an overarching guideline for our customer advisers.

The group will work purposefully to reduce both ESG risk and greenhouse gas emissions from the loan portfolio. We set guidelines for relevant industries that address ESG-related risk, thereby ensuring that decisions are made on a solid basis and in accordance with the group's sustainability strategy.

ESG model and credit assessment

Our ESG model is a key tool in assessing our corporate customers' ESG risk. The model has been developed by the SpareBank 1 Alliance for the purpose of detecting credit risk related to ESG, where the customer is scored on a scale from 1 to 10. The questions posed in the ESG model are tailored to the segment in which the customer operates, alongside assessments concerning climate risk (physical risk and transition risk), social risk factors (e.g. worker rights and human rights), as well as governance. The ESG model is a tool available to financial advisers in the customer dialogue, partly with a view to the ESG assessment, but also with a view to discussing the risk picture for the customer's industry, and to highlighting steps the customer can take to reduce their own ESG risk.

When using our ESG model we require classification of ESG risk level in the case of all exposures of NOK 10 million or more. Risk classification is updated at least annually and in the event of significant changes. Risk level is categorised as low, medium or high.

For 2023 our aim was to assess 75 per cent of all existing and new credit exposures of NOK 10 million or more using our ESG model. As at 31 December 2023 the proportion was 87.2 per cent, i.e. well above target. For 2024 we have set a target of 90 per cent.

We will continue, together with the SpareBank 1 Alliance, to further develop the ESG model in terms of functionality, questions asked, weighting and data. For new and existing customers with credit exposures below NOK 10 million the ESG model sets no requirement as to ESG classification, although a verbal ESG assessment is required in the event of observed negative discrepancies.

Investments at SpareBank 1 SMN

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

- Own direct investments
- Investments by administrative services mediated through the bank
- Investments of moneys from the community dividend fund and SpareBank 1 SMN Utvikling

Own direct investments

In managing the group's liquidity risk, we have a portfolio consisting of liquid securities of high credit quality. The portfolio's composition and size are in conformance with steering documents for the liquidity area approved by the board of directors and with statutory requirements on liquidity management. In addition, guidelines for sustainable liquidity management have been drawn up. The group's investments in CDs and bonds total NOK 34bn at the end of 2023. In the course of 2023 we have continued to build up the share of bonds that meet ESG criteria, and have considered and participated in a number of issues denominated in NOK and EUR through the year. This amounts to NOK 2.7bn for 2023. These are in all essentials bonds issued by multinational organisations and covered bonds.

SpareBank 1 SMN Invest AS owns shares and units in regional enterprises and funds. Activity in this company is reduced, and the company will not be making investments in new individual companies. The portfolio will therefore be scaled back over time.

Investments made by management services mediated through the bank

SpareBank 1 SMN is not a manager of mutual funds, but is a distributor of such funds. As a distributor, we are concerned to offer mutual funds with high ambitions in terms of sustainability. The mutual fund offering has been built up through ODIN, which SpareBank 1 SMN indirectly co-owns through SpareBank 1 Forvaltning, in addition to mutual funds from other fund managers.

Together with the other banks in the SpareBank 1 Alliance, we wish to make it simpler for our customers to invest in mutual funds that are appropriate to the customer in terms of return and risk, but also with a view to sustainability.

We have guidelines on sustainable distribution and recommendation of mutual funds. The guidelines are drawn up followed up together with the other banks in the SpareBank 1 Alliance. Through our guidelines we have defined what we encourage, expect, and demand of managers of the mutual funds that we distribute to our customers. If a manager breaches the requirements and, after dialogue with us, opts not to change their practices, we will halt distribution of the mutual fund concerned.

In addition to the above, we have established our own labelling scheme in which the various funds are given a sustainability rating based on compliance with our expectations. Briefly, we expect managers of the respective funds to be active owners and to exclude companies and sectors in order to ensure a more sustainable development for the company in isolation, but also for the community and the environment. We consider these factors important for the value created by the companies for their owners who are in turn our customers.

In light of a sizeable ongoing revision of the labelling scheme in the second half of 2023 we have deferred the process of obtaining new sustainability information from fund managers for 2023. We will ahead rely to a greater degree on the Sustainable Finance Disclosure Regulation (SFDR), and on more objective sustainability information provided by a supplier of sustainability data in the labelling arrangement, and less on information obtained directly from the fund managers. We expect the new labelling arrangement to be phased in during the first half of 2024.

The table below shows the distribution of ratings under the labelling arrangement for 2023. Only one change in rating is seen for funds in distribution in 2022.

ESG score	2023	New funds 2023
A	12	1
B	179	3
C	17	0
D	4	0
E	0	0
F	1	0
Total	**213**	**4**

Table 3: Distribution of ESG-score funds

By far the majority of funds we distribute have a B rating, and we consider these funds to have a good approach to sustainability. Revision of the labelling arrangement is partly designed to enable funds to be differentiated from one another to a greater degree, so as to reduce the concentration of funds with a B rating. Only one fund has moved from an A rating to a B rating compared with the previous ESG scoring. In order to receive an A rating, a fund must in addition to meeting all the expectations imposed, be classified as an Article 9 fund under the SFDR.

All fund managers state that they have signed up to the UN Principles for Responsible Investment and report on compliance.

Investments of moneys from the community dividend fund and SpareBank 1 SMN Utvikling
This receives further attention in the chapter 'Community dividend' and 'Stimulating innovation and sustainable economic growth'.

Framework for issuance of green bonds
In keeping with the group's sustainability strategy, SpareBank 1 SMN has drawn up a framework for the issuance of green bonds (Green Bond Framework). The framework was drawn up in keeping with ICMA Green Bond Principles. The framework supports the UN Sustainable Development Goals, and all qualified loans in the portfolio can be related to one or more of the following sustainability goals:

Qualified loans are grouped in categories:

- No. 7: Affordable and clean energy
- No. 8: Decent work and economic growth
- No. 9: Industry, innovation and infrastructure
- No. 11: Sustainable cities and communities
- No. 12: Responsible consumption and production
- No. 14: Life below water
- No. 15: Life on land

Qualified loans are grouped in categories:

- Green homes and commercial buildings
- Environment-friendly and sustainable management of living natural resources and land use
- Circular economy adapted products, production technologies and processes with selected sustainability certifications
- Clean transport
- Renewable energy

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

As at 31 December 2023 we had issued green bonds worth NOK 23.8bn.

Qualifying assets in the portfolio total NOK 34bn. Further details about the issuances can be found in the green bond allocation report published in our sustainability library at smn.no.

SpareBank 1 SMN's green bond framework – brought to completion in January 2024 – is an update of the existing framework for green bond issuance with an eye to the EU taxonomy. Some divergences from the taxonomy remain, mainly due to two items:

- Grandfathering of loans – i.e. loans which qualified at the time of granting, but where the collateral for the loan would not have qualified today.
- Sectors and certifications that are not a part of the taxonomy today such as fishery, aquaculture and Eco-Lighthouse.

For other differences between SpareBank 1 SMN's framework and the taxonomy, we refer to the description provided in the SPO from Sustainalytics, which has evaluated the framework.

Climate risk and opportunities

Climate risk denotes the risk of financial loss or impaired reputation which can be related either directly to climate change (physical risk) or as a consequence of adjustments towards a low emissions society (transition risk).

Loss as a result of climate risk will materialise through the traditional risk categories such as credit risk, market risk and operational risk. Climate risk is thus a driver of risk, not a risk category in its own right. The group considers climate risk to be a material financial risk, and until such time as climate risk is fully integrated into the traditional risk categories and the group's corporate governance, climate risk will receive added focus in our risk management.

We utilise the Task Force on Climate-Related Financial Disclosures (TCFD) framework to guide our work on, and reporting on, climate risk.

Management

Board of directors' involvement in climate-related risks and opportunities

Climate risk responsibilities follow the group's ordinary responsibility structure, in conformance 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 steering documents and follow-up of reporting from the administration. The risk and audit committee monitors 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 through the quarterly reporting and as a routine item in the risk report, and annually through the annual report and the ICAAP.

The board of directors has approved, and will ahead revise, steering documents designed to manage climate risk, for example the Sustainability strategy, Sustainability policy, Climate risk strategy and Credit strategy. Integrating climate risk into all steering documents, and revision, is a continuous process.

In 2022 the board of directors adopted an ambition to achieve net zero emissions by 2050, recognised climate risk as a strategic opportunity and threat, and adopted a framework for transition plans towards net zero. In 2023 the board of directors took the net-zero ambition a step further by committing the group to the Science Based Targets initiative (SBTi). The group must, by 2025, draw up plans and emission paths towards net zero in 2050 and have them validated.

Management of climate-related risks and opportunities

The group management team has set a direction for the work on climate risk by designating sustainability as one of five priorities of the group strategy which was adopted in 2019.

Day-to-day operations follow the ordinary lines-of-defence structure and responsibilities, where the group CEO has highest responsibility. Roles and responsibilities in the climate risk effort, as part of the overall work on sustainability, are specified in the document Sustainability policy. Inasmuch as climate risk is included in all steering documents, responsibility for climate risk management is an integral part of the group's business.

The group’s ESG committee will contribute to the development and implementation of a groupwide standard for sustainability at SpareBank 1 SMN. Climate risk management is a part of this effort. All business lines in the group have a representative on the committee who is designated by the director of the business line or the head of the subsidiary concerned. The committee’s mandate was revised in October 2023 and shall inter alia:

- Monitor ESG trends and developments
- Encourage further development and intensification of the work on integrating sustainability across all parts of the group in line with applicable strategic initiatives
- Contribute to developing active impact strategies and transition plans that assist the group’s customers, suppliers and business partners in achieving the necessary readjustment
- Contribute to making clear the group’s ESG data needs as a basis for overall corporate governance and preparation for meeting new regulatory requirements
- Contribute to developing competencies as regards relevant frameworks and regulatory requirements

Strategy

SpareBank 1 SMN is concerned to create sustainable profitability and growth. The group’s climate risk strategy shall underpin these objectives as follows:

- The long-term goal shall be reached by identifying, assessing and managing future climate risk related to the group’s activities, primarily through being an active driver for the green transition.
- We shall develop and maintain knowledge, tools and methods for identifying climate risk at customer level and quantifying risk at aggregated portfolio level.
- Policy and authorisations shall be designed so as to form an effective framework for the business, with the aim of keeping the group’s exposure to climate risk within the board of directors’ adopted risk appetite.
- We shall actively work to reduce climate risk in the loan portfolio by providing advice, transition financing and in the final instance by turning away customers or suppliers who either fail to meet the minimum requirements as to sustainability or whose commitment to transition is inadequate.

Climate-related risks and opportunities in the short, medium and long term

The group updates annually a detailed survey of climate risk using the TCFD template. With regard to the group’s lending activity, significant industries are reviewed jointly by the industry officer, the Credit Department and Risk Management. Potential threats and uncertainties are identified and risk is assessed over the short, medium and long term. Where significant financial risks are identified, the ESG model can be adapted to identify vulnerable customers. Finally, the choice of risk management strategies is considered, including development of new policy rules.

The results of the analysis show that climate risk is primarily a risk through loans to customers. Our loan portfolio poses relatively low physical risk, with the exception of fishery and aquaculture where the risk is moderate due to the expected rise in sea temperatures. Transition risk will impact most businesses in the transition towards the low emissions society. We are exposed to agriculture and ship-related segments, which in our analyses have high estimated greenhouse gas emissions that attract public attention. These industries have a conscious awareness of the issue and are making an active effort to reduce greenhouse gas emissions, for example through the climate plan for agriculture (*Landbrukets Klimaplan*) and the International Maritime Organisation (IMO).

In addition to posing a transition risk, the customer's transition presents a climate-related opportunity for the group's business lines when it comes to products and advisory services. We note a rising demand for green loans among larger companies, although green loans are also in demand by smaller businesses and residential mortgage borrowers. This product offers both an opportunity for increased sales and a motivation for our customers to make green investments. Green investments can help to reduce customers' vulnerability to climate risk, but can also pose a financial risk to the customer if the investment is too high or the choice of technology is wrong.

Consequences for operations, strategy and financial planning
The results from the mapping of climate risk are used to assign priorities in the work ahead, to establish new policy rules as a framework for the lending business and to progress the work on transition plans towards net zero. The results are also used as input in the work on credit strategy. The ambition is that priorities for growth and adjustment of credit boundaries should help ensure that climate risk is within the board of directors' risk appetite.

Implementation of measures places emphasis on supporting the sustainability strategy's goal of being a driver for green transition. In 2023 transition plans for agriculture, fishery and commercial property were brought to completion or were updated.

Climate risk is integrated into corporate governance through KPIs, as shown in the KPI table in the introduction to this annual report.

We issue green bonds and have established a programme to ensure that the funds are utilised as intended. The green bond framework was revised in 2023. In addition, Boligkreditt has funded its operations using green bonds. We offer green residential mortgages, construction loans and agricultural loans.

Climate scenarios' potential impact on operations, strategy and financial planning
SpareBank 1 SMN utilises the Network for Greening the Financial System (NGFS) scenarios to analyse the consequences of climate changes for the group's activities. We focus on the three scenarios "orderly transition", "disorderly transition" and "hot world". Our transition plans are developed in order to contribute to an orderly transition, but they also prepare our business to handle the other two scenarios. The qualitative analysis that has been carried out focuses on the two downside scenarios.

Quantitative analyses have been carried out on the portfolio with a basis in the scenarios. In the case of transition risk in the portfolio of loans to business and industry we have examined how increased carbon prices in the NGFS scenarios impact the annual results of our corporate clients given estimated greenhouse gas emissions per client. The results confirm that if the polluter pays for its emissions, industries with high greenhouse gas emissions will face substantial costs.

In 2023 the banks in the SpareBank 1 Alliance further developed the stress test model for credit risk to include climate scenarios and climate-related variables. This work continues in 2024.

Our assessment is that a disorderly transition will present the greatest challenge within the analysis horizon to 2050. We are therefore actively working to impose requirements and expectations on our customers to ensure that a green transition reduces vulnerability to a disorderly switch to a low emissions society.

Risk management

Identifying climate risk

We have several processes for the identification of climate risk in our activities. The bulk of our work on climate risk focuses on the lending business since it is here that we consider the risk to be greatest.

The previously mentioned mapping of climate risk using the TCFD template provides a thorough analysis of events that can impact our customers, assessed at industry level.

Vulnerability to climate risk is likely to vary within an industry. All corporate clients with a volume above NOK 10m, along with agriculture customers, are assessed using the SpareBank 1 Alliance’s shared ESG model. The model assesses customers’ transition risk, physical risk, social conditions and corporate management. The model was developed with the aim of providing good, updated risk assessments and to ensure good data capture. Preliminary results from the model strengthen our assessment that transition risk poses a bigger challenge to our customers than physical risk.

Climate risk is an explicit assessment item for all loan applications submitted by corporate and agriculture customers. The adviser concerned must accordingly make a separate assessment of the customer’s vulnerability to climate risk in addition to assigning an ESG score.

Managing climate risk

Our strategy on management of climate risk primarily involves driving a green transition for our customers through providing advice and finance for transition. Our transition plans for the respective industries impose clear requirements and expectations on our customers, designed to assist management of the customer’s climate risk.

Good guidelines help to guard against credit risk and set clear boundaries for the lending business. Where financing of commercial property is concerned, we apply stricter loan-to-value requirements to buildings that are old or energy-inefficient. This is because we anticipate a need to upgrade to a modern energy standard in order to attract tenants and to comply with government requirements.

Integrating climate risk into the risk management framework

Integrating climate risk into corporate governance is an ongoing process, and entails the need to incorporate the effect of climate risk into all group strategies, policies and procedures. In addition to its inclusion in the Sustainability Strategy, Sustainability Policy and Climate Strategy, climate risk is integrated into the traditional risk management framework as a risk driver. The three documents mentioned above have acted as guides to how other steering documents should integrate climate risk.

EU (EBA) guidelines impose comprehensive requirements on our climate risk effort, e.g. the guidelines on loan origination and monitoring. Internal projects have been carried through to ensure compliance which in turn contributes to an increased focus and quality of the work done.

Climate risk is considered a risk driver in the bank’s ICAAP.

Goals and method

Methods used to assess climate-related risks and opportunities, in line with strategy and risk management processes

The qualitative TCFD analyses of climate risk are conducted on significant activities in the group, with a focus on the largest industries in our loan portfolio. We consider each event separately and events as a whole per transition/physical risk on a scale from low to high risk. The risk assessment is also performed along a short, medium and long (2030+) time dimension.

Our analyses have identified greenhouse gas emissions as a risk to customers in our loan portfolio. This has prompted the group to join the Partnership for Carbon Accounting Financials (PCAF). In 2023 we sought to improve the quality of the estimates and to adapt the methodology to Finance Norway's guide on financed greenhouse gas emissions. While the estimates are still subject to much uncertainty, they nonetheless serve as a guide in our work on strategy. A detailed description of calculations and assumptions is provided in the chapter entitled 'Financed emissions'.

Where financed properties are concerned, Eiendomsverdi has delivered an energy performance certificate for properties holding such a certificate, and has estimated energy ratings for remaining properties. Eiendomsverdi has for all properties delivered estimates of energy consumption which are used to estimate greenhouse gas emissions. The table below shows the number of financed commercial buildings with a usable area above 1,000m^2, and dwellings, distributed by energy rating. The figures are inclusive of loans transferred to SpareBank 1 Boligkreditt/Næringskreditt.

ENERGY RATING	No. of dwellings	Share	Accumulated share	No. of commercial buildings	Share	Accumulated share
A	463	1 %	1 %	3	0 %	0 %
B	3,453	4 %	5 %	30	4 %	4 %
C	3,858	5 %	10 %	30	4 %	8 %
D	4,759	6 %	16 %	51	7 %	15 %
E	5,054	6 %	22 %	26	3 %	18 %
F	6,730	8 %	31 %	15	2 %	20 %
G	8,590	11 %	42 %	8	1 %	21 %
Energy certificate expired	4,190	5 %	47 %			
No energy certificate, but built after 2010	8,084	10 %	57 %	122	16 %	37 %
No energy certificate	34,062	43 %	100 %	484	63 %	100 %
Total no. of properties	**79,243**			**769**		

Table 4: Distribution energy rating

The table shows that many dwellings can benefit from energy efficiency upgrades. The bank offers favourably priced green construction loans or green loans for energy-efficiency measures to customers wishing to upgrade their home to a better energy rating.

Physical climate risk

Our TCFD analyses indicate that we have a degree of vulnerability to ocean warming through our customers in the fishery and aquaculture industries. Moreover, properties in unfavourable locations in terms of rising sea level, flooding or landslides will be more vulnerable in a warmer and more extreme climate.

Properties we finance through residential mortgages and commercial mortgages have been linked up to the NVE's risk maps. Data are delivered by Eiendomsverdi, and then tied in with our lending. We have chosen the following activation thresholds for flagging properties for possible physical risk.

- Sea level: 200-year storm surge, current scenario
- Flooding: 20-year flood, now-scenario or 200-year climate-adjusted scenario
- Quick clay landslide: Medium probability, current-scenario
- Mountain slide: Danger zone unstable or 100-year zone

- Snow slide: Precautionary area inspected

The table below shows total outstanding loans, including loans transferred to SpareBank 1 Boligkreditt, that are secured by real property. Agriculture customers are included under corporate customers.

NOK million	Personal customers	Corporate customers	Total loans	Share
Total loans	152,971	38,599	191,570	
- of which exposed to climate risk				
Flooding	822	1,715	2,537	1,3 %
Snow slides	2,966	1,041	4,007	2,1 %
Mountain slides	76	109	184	0,1 %
Quick clay slides	3,881	668	4,549	2,4 %
Sea level	2,122	3,345	5,467	2,9 %
Total exposed to risk[1)]	**9,362**	**6,470**	**15,832**	**8,3 %**

1) The total exposed to risk is smaller than the sum total of risk groups. This is because some properties are included in two or more risk groups.

Table 5: Exposure physical risk

The NVE's risk map shows only hits where mapping has been carried out, apart from sea level, which is modelled for all properties. Moreover, flagging gives no indication of whether safety measures have been put in place.

Municipalities showing the most hits for snow slides are Ørsta, Ålesund, Rauma and Oppdal. For quick clay slides, Trondheim municipality is overrepresented. This is both because most of the group's lending is to this municipality and because many quick clay sites have been identified.

Reporting of greenhouse gas emissions scope 1, 2 and 3
See the enclosed climate account, the chapter "Reducing the carbon footprint in day-to-day operations" and the chapter "Greenhouse gas emissions from the group's loan portfolios" for our reporting on upstream and downstream greenhouse gas emissions for 2023.

Goal of the work on managing climate-related risks and opportunities
Our goal in managing climate-related risks and opportunities refers both to our opportunity to impact our surroundings and to how our surroundings impact us. More precisely this means:

- Net zero by 2050, both as regards emissions from day-to-day operations and emissions as a result of our lending business
- Long-term sustainable profitability and growth through management of climate risk
- Successful transition of local corporate and retail customers towards a low emissions society.

We are a substantial actor in the region and we seek to use the group to contribute to the transition through the bank, our subsidiaries and our contribution to the regional community.

Relevant steering documents
The following steering documents are central to this theme:

- Guidelines on sustainable lending to retail customers
- Transition plan for sustainable agriculture
- Guidelines on sustainable lending to corporate customers
- Transition plan for commercial property

- Transition plan for fishery
- Guidelines on sustainable distribution and recommendation of mutual funds
- Guidelines on sustainable governance
- Guidelines on sustainable liquidity management
- Green bond framework
- SpareBank 1 Boligkreditt's green bond framework
- Allocation report 2023
- Green bond impact report
- Sustainalytics' second party opinion. Multiconsult's report.

Reducing the carbon footprint in loan portfolios

Our approach to the theme

The financial industry has negligible direct emissions, and our climate impact is in the main a consequence of the capital we manage through loans and investments. The carbon footprint in our loan portfolios constitutes a growing financial risk for us as a group. We recognise that SpareBank 1 SMN must as a major regional financial actor go to the fore as a driver for green transition in our region.

Our driver role entails reducing greenhouse gas emissions through exerting active influence on our customers, while at the same time continuing to integrate material sustainability factors into corporate governance, risk management and credit models. Our transition plans towards net zero emissions at industry level, changes in credit policy and commitment to SBTi are examples of our systematic effort to follow up and reduce our overall climate footprint.

Our commitment to the Science Based Targets initiative

The transition to a low emissions society is dependent on the financial industry, but preparing key performance indicators, objectives, calculations and results poses a challenge given inadequate principles and definitions to support emissions reduction and little in the way of standardised measuring and calculation methods. There is also a notable lack of definitions of what are considered to be effective emission reduction strategies. Our commitment to the Science Based Targets initiative (SBTi) will help us to resolve the problems mentioned.

The SBTi is a global, voluntary body whose mission is to assist companies, including financial institutions, in setting ambitious, science-based climate targets in line with the latest climate science. The initiative came about in response to the gap in evidence after COP21 (Paris Agreement) in 2015, when global pledges were not sufficient to prevent global warming above 1.5 degrees. The initiative is a global collaboration between the Carbon Disclosure Project (CDP), the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wildlife Fund (WWF).

As a natural follow-up to the series of three board meetings entitled 'climate transition towards 2050', at which the group's strategic objective of net zero emissions by 2050 was adopted, the board of directors resolved in August 2023 that validated targets should be drawn up in line with the SBTi for all key sectors in the group's loan portfolio. A commitment to cut emissions in keeping with a 1.5 degree emissions path was submitted to the SBTi on 6 October 2023. The commitment entails that SpareBank 1 SMN, over the next two years, will draw up, and obtain approval of, short-term and long-term targets with appurtenant action plans for the period to 2050.

The project group, headed by the group's chief sustainability officer, comprises persons from corporate banking, retail banking, risk management, finance and group accounts with varying backgrounds, competencies and areas of responsibility in the group. The purpose of this organisational set-up is to ensure objectivity, expertise and breadth of viewpoints, discussions and results. In addition to setting up the internal project group we have identified a need to discuss calculation methods and other methodology with the SpareBank 1 Alliance and other banks during the preparation of our own targets. Involving external actors ensures additional collaboration with banks whose preparatory process is under way or that have already prepared science-based targets.

The latter part of 2023 was devoted to understanding how the framework will impact our objectives, including our understanding of the framework's definitions, principles, rules and measuring and calculation methods. Based on this understanding we shall in the course of 2024 improve our measurement of greenhouse gas emissions, identify key emission reduction measures, prepare a methodical approach and commence goal formulation. We are concerned that our stakeholders should have insight into the status of the overall effort, and will therefore be open about the progress made with the validation process. Information will in the course of the validation process (2024-2025) be shared in relevant communication channels.

Greenhouse gas emissions from the group's loan portfolios

In 2021 the group committed to the Partnership for Carbon Accounting Financials (PCAF), a global collaboration between financial institutions that seeks to harmonise and estimate greenhouse gas emissions financed by loans and investments. This commitment and partnership afford us access to a methodology approved by the GHG Protocol to estimate greenhouse gas emissions from customers in our loan portfolio. The PCAF has become the industry standard in banking and finance in terms of estimating and reporting greenhouse gas emissions produced by financed activities.

The PCAF estimates have a basis in three emission categories (scopes) consisting of direct and indirect emissions. Scope 1 represents emission sources related to business assets owned or controlled by the customer. Scope 2 represents indirect emissions stemming from the customer's consumption of energy, including electricity and district heating. Scope 3 represents indirect emissions which can be linked to the customer's activities but which are not directly owned or controlled by the customer. Scope 3 emissions are related either to the purchase of goods and services (upstream) or the sale of goods and services (downstream).

Our customers' scope 1 and scope 2 are included in the group's scope 3 downstream emissions. Financed greenhouse gas emissions are calculated by multiplying the customer's total greenhouse gas emissions by the financed portion of the customer's assets. If the bank finances 5 per cent of a customer's assets, we take in 5 per cent of that customer's greenhouse gas emissions.

The foundation wall of the PCAF methodology consists of estimated emissions based on income- or loan-based emission factors per industry. Our objective is to replace simple estimates either with emissions reported by the customer itself or with activity-based estimates.

The data quality of estimated greenhouse gas emissions, referred to by the PCAF as "data quality score", extends from 1 (based on the customer's own reported greenhouse gas emissions) to 5 (factor-based emissions relative to loan balance). A low score denotes high data quality. Most customers are measured using the factor-based method. Estimated greenhouse gas emissions presented below generally have a low score on data quality and a high level of uncertainty.

This year the methodology for estimating greenhouse gas emissions from the loan portfolio has been updated with a number of changes to bring it more into line with Finance Norway's "Guidelines for calculating financed greenhouse gas emissions". Emission factors are also updated* and substantially changed. The changes in measuring method are so large as to require historical figures for 2022 to be estimated anew using the updated method of measurement, with the exception of Wage earners This is to ensure that reported changes as far as possible reflect changes in actual greenhouse gas emissions, and not merely technical adjustments to the method of measurement.

* Upon the recommendation in PCAF_EXIOBASE-Methodology_2023.pdf we have switched from Norwegian emission factors to EU factors. Some extreme values have been adjusted with reference to the PCAF's recommendation. This applies in particular to oil-related activity.

The table below shows estimated greenhouse gas emissions from the group's loan portfolio including loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, both for 2023 and with new calculation of the 2022 figures. A complete climate account for both the parent company and the group is enclosed with this annual report.

	Lending balance (NOKm)		**Estimated greenhouse gas emissions** (1000 tonnes CO2e)		**Emission intensity** (tonnes CO2e per NOKm loaned)		**PCAF data quality score**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Agriculture and forestry	12	11	603	518	50.4	48.4	3.3	3.4
Fishery	5	7	69	96	12.7	13.7	2.8	2.6
Aquaculture	2	2	14	18	6.3	7.6	2.5	2.9
Manufacturing and mining	3	2	62	50	21.2	20.4	4.1	3.9
Construction, power and water supply	6	4	19	14	3.2	3.3	4.2	4.3
Wholesale and retail trade, hotels and restaurants	3	3	28	25	10.8	9.0	4.1	4.1
Shipping and offshore	6	5	107	118	17.9	22.0	4.0	4.1
Property management	21	19	4	3	0.2	0.2	3.4	4.2
Business services	4	3	6	5	1.4	1.4	4.3	4.3
Transport and other services	5	5	76	69	14.1	13.0	4.2	4.1
Public administration	0	0	0	0	1.4	0.7	4.9	5.0
Other sectors	1	1	3	3	2.0	2.8	4.2	4.3
Wage earners[1)]	153	135	19	16	0.1	0.1	3.0	3.0
Total lending incl. SB1 Bolig- and Næringskreditt[2)]	**222**	**198**	**1,012**	**935**	**4.6**	**4.7**	**3.2**	**3.3**
Lending/leasing cars (SB1 Finans Midt-Norge)[3)]	**7.7**	**6.8**	**38.6**	**42.5**	**5.0**	**6.3**	**3.0**	**3.0**

[1)] Wage earners (residential mortgages) are estimated based on financed buildings. For 2022 the previous year's figures are used, i.e. new figures using the updated measuring method have not been calculated. Scope 3 not established.

[2)] The loan balance is slightly lower than in the lending note. The difference is that accrued non-capitalised interest and gross positions for cashpool accounts are not included above.

[3)] Only NOK 7.7bn of NOK 12.6bn of the loan portfolio of SpareBank 1 Finans Midt-Norge AS is included. Refers to lending/leasing, fossil-fuel cars.

Table 6: Estimated emissions from the loan portfolio

The estimates build on location-based emission intensity levels for electricity consumption (19 grammes of CO_2e per kWh for 2023). If emission intensity is changed to the European residual mix (502 grammes of CO_2e per kWh), this affects estimated emissions for wage earners and property management. Total greenhouse gas emissions would then have increased by 524 thousand CO_2e, from 1,012 thousand CO_2e (using location-based emission intensity) to 1,536 thousand CO_2e (using market-based emission intensity).

Our estimates in the above table continue to indicate that greenhouse gas emissions in the loan portfolio are concentrated on a small number of sectors, and account for a limited share of our loan volume. The graph below shows that four industries account for a mere 13% of lending but as much as 85% greenhouse gas emissions. These industries are agriculture and forestry (60%), shipping and offshore (11%), transport and other services (8%) and fishery (7%).

Greenhouse gas emissions have risen by 8%, which is less than the increase in lending. The increase in lending is attributable to the merger with SpareBank 1 Søre Sunnmøre, inflation and growth in financial assets. In the case of agriculture, activity-based emissions have increased since we have financed more of the commodities produced. For fishery, emissions are reduced due to a reduction in lending volume and fewer financed vessels.

The changes in emissions from 2022 to 2023 are small relative to measurement uncertainties. We cannot use the figures to draw a conclusion as to whether greenhouse gas emissions from lending activity have changed in the period.

Revised figures for 2022 show a decline in total greenhouse gas emissions for 2022, from 1,054 thousand CO_2e to 935 thousand CO_2e, with major differences between industries. This is mainly attributable to substantial changes in emission factors delivered by the PCAF. The group will in 2024 collaborate with other Norwegian banks to ensure greater stability in emission factors ahead.

Work on transition plans per industry is a continual process. Based on the analysis (see the graph below), the preparation of transition plans will be prioritised based on emission contributions. The transition plans will contribute to our effort to reduce financed greenhouse gas emissions and at the same time reduce our customers' vulnerability to climate change, known as transition risk. In 2023 we finalised transition plans for fishery and commercial property, whereas agriculture was finalised in 2022. A transition plan for ship-related segments and residential mortgages is in progress.

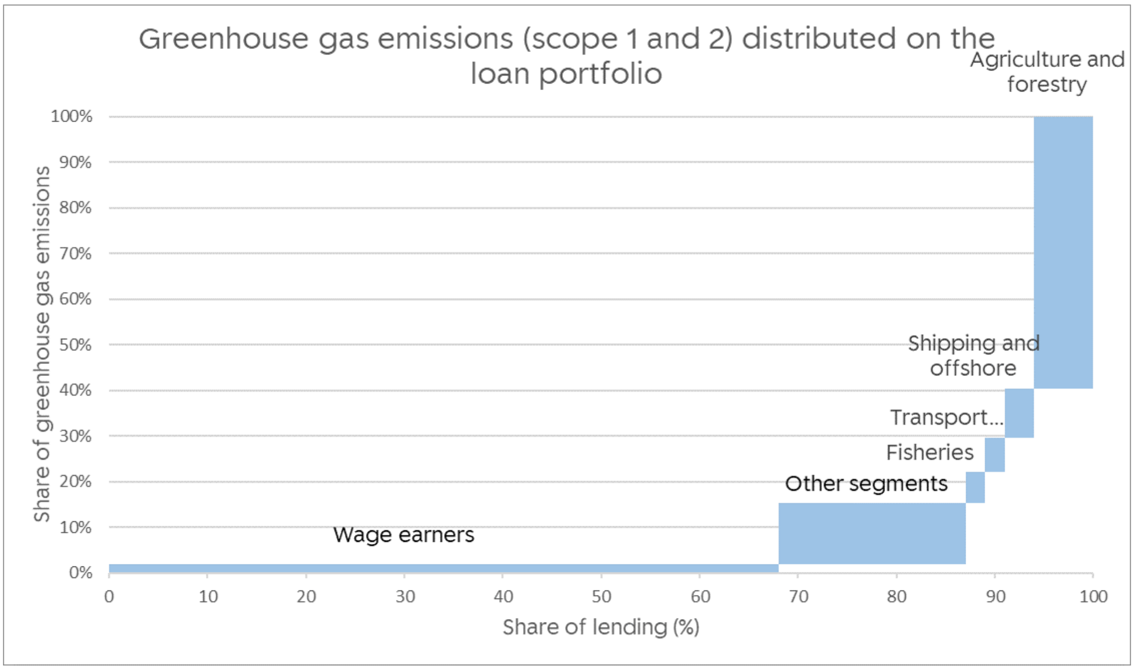

Figure 7: Distribution of the loan portfolio's greenhouse gas emissions

This is the second version of our estimated greenhouse gas emissions from the loan portfolio. The figures remain highly uncertain and must be treated accordingly. The figures indicate a direction for our work and for our future priorities, but we are cautious with regard to strategic decisions given the substantial uncertainty. When, ahead, we measure changes in greenhouse gas emissions over time, historical figures will be revised to ensure that reported changes as far as possible reflect changes in actual greenhouse gas emissions, and not merely technical adjustments to the method of measurement.

We have estimated the majority of our loan portfolio by using either an input factor or output factor. Currently a minority of our customers report their own greenhouse gas emissions and, for those that do report, the figures are not yet in the public domain, which impedes data collection. An overview of assumptions employed in estimating the greenhouse gas emissions of industries from which we have obtained primary data follows below.

Fishery

For the fishery portfolio we have for a number of years collected data on ship fuel consumption of our largest customers. The figures are used to estimate greenhouse gas emissions of relatively good quality from the fishery portfolio. This portfolio has the best data quality in the analysis. However, the data source has a one-year lag, and ship fuel consumption for 2022 is used to estimate the customer's emission intensity for 2023. Where a customer's financing has risen from 2022 to 2023, estimated emissions have risen correspondingly.

Wage earners (residential mortgage loans)

In the case of the residential mortgage portfolio, estimated greenhouse gas emissions are delivered by Eiendomsverdi AS, and prepared by Simenergi AS. Greenhouse gas emissions are estimated using emission factors based on a physical production mix with an emission of 19 grammes of CO_2e per kWh. We have above also presented estimated greenhouse gas emissions based on a European residual mix, of 502 grammes of CO_2e per kWh.

Property management
Greenhouse gas emissions from financed commercial property are estimated by retrieving information on each individual building, i.e. property type, usable floor space and energy label, where this exists. Information about the building is then combined with PCAF emission factors, either per square metre or per building.

Fossil-fuel vehicles
For SpareBank 1 Finans Midt-Norge, greenhouse gas emissions are only estimated for NOK 7.7bn of NOK 12.6bn of financing used to finance vehicles with petrol or diesel engines. We have employed an average mileage of 12,000 kilometres for all cars.

Agriculture and forestry
In the annual report for 2022, estimated greenhouse gas emissions from agriculture were estimated based on emission factors from Asplan Viak which were in turn linked to information at individual farm level culled from the agricultural grants register. The register provides an overview of livestock numbers, production and area managed.

In the present report the emission factors are replaced with figures from Finance Norway's guidelines, the so-called PLATON factors. This has in isolation yielded a 50 per cent increase in emissions, although the increase is compensated for by the fact that farms with no activity recorded in the agricultural grants register are now estimated as dwellings, whereas their previously very high emissions were estimated using the factor-based method.

Although the data quality of estimated greenhouse gas emissions for agriculture is relatively speaking good, uncertainty still attends the figures. We are still unable to measure the difference between good as opposed to poor agronomy. We expect our customers to take Agriculture's climate calculator into use and that this will improve our estimates of greenhouse gas emissions per farm and provide input to our plan for reduction of greenhouse gas emissions ahead.

Carbon capture by woodland has risen sharply in Norway as a result of increased forestation in the period 1955-1992. Annual carbon storage in woodland has however fallen since 2009 due to low investment in silviculture, increased tree felling and a rising proportion of old woodland. (https://www.skogbruk.nbio.no/klimagassregnskapet-for-norske-skoger)

A large proportion of farms financed by the bank include forestry in their activities. A total of 1.6m decares of productive woodland are registered to our customers. Adjusted for financing rate and multiplied by a factor for area-based capture from woodland (0.2464 tCO_2e per decare), the financed portion of carbon capture in woodland is calculated at 255 thousand tCO_2e. This is a highly uncertain estimate and should not be used to offset financed emissions.

Taxonomy
The EU Taxonomy Regulation - (EU) 2020/852 - establishes a Europe-wide classification system that helps companies and investors to identify environmentally sustainable economic activities.

This classification standard aims to promote sustainable investments and economic activities by providing companies and investors with clear guidelines and criteria for assessing and reporting on sustainability aspects of their businesses and projects. The EU Taxonomy Regulation sets concrete requirements as to what activities can be considered sustainable and criteria that must be met in order for a company's activity to be regarded as sustainable.

The Act on Sustainable Finance incorporates the Taxonomy Regulation with ensuing Commission Regulations into Norwegian law. The Taxonomy Regulation entered into force in the EEA Agreement on 15 December 2022 with effect from 1 January 2023.

In order for an activity to be regarded as taxonomy-aligned, it must be considered to substantially contribute to at least one of the Taxonomy's six environmental objectives (technical screening criteria), while doing no significant harm to any of the other five objectives. The activity must moreover comply with minimum social and governance safeguards. For 2023 all six environmental objectives must be reported on.

The six overarching climate and environmental objectives are:

1. Climate change mitigation.
2. Climate change adaptation.
3. Sustainable use and protection of water and marine resources.
4. Transition to a circular economy, waste prevention and recycling.
5. Pollution prevention and control.
6. Protection and restoration of biodiversity and ecosystems.

Premises

The requirements for companies due to report on sustainability for 2023 are laid down in EU 2013/34, the Non-Financial Reporting Directive (NFRD). Institutions subject to the NFRD are both financial and non-financial large public interest entities. Where SpareBank 1 SMN is concerned, it is our financial activities that are assessed under the six climate and environmental objectives. For the reporting year 2023, mandatory reporting applies only to objectives 1 and 2. For the reporting year 2024, reporting on objectives 3 to 6 (see above) will also be mandatory.

For credit institutions, reporting in line with the taxonomy is to be on a proportional consolidation basis in line with EU 575/2013. For 2023 this means that we at SpareBank 1 SMN include reported figures from our subsidiaries, related and jointly controlled companies based on the share of capital held. For an overview of the companies involved, see note 39 in the annual report – Investments in owner interests.

Below follows an overview of exposure categories reported on for 2023:

	Reporting category	Description/definition	Taxonomy-aligned activities	Data collection
1	Financial undertakings	Financial undertakings or holdings in financial undertakings (which are not held for trading purposes)	Gross exposure to NFRD undertakings that have submitted taxonomy reports multiplied by GAR. Also includes special purpose bonds	Reporting based on the company's/customer's own reporting to SpareBank 1 SMN. Few reports submitted by the reporting date for 2023.
2	Non-financial undertakings subject to NFRD	Based on screening of our loan portfolio, our customers are essentially small/medium undertakings with no reporting obligation for 2023	None	Reporting based on the company's/customer's own reporting to SpareBank 1 SMN. No voluntary reports submitted by the reporting date.
3	Households – mortgages	This category deals with loans secured on dwellings able to meet requirements as to climate change mitigation and climate change adaptation (objectives 1 and 2)	Assessment based on construction year, energy consumption and doing no significant harm to climate adaptation	All data used in the classification are delivered by Eiendomsverdi. Specifically, energy consumption is obtained for dwellings with a valid energy certificate, and all dwellings are checked against the NVE's risk map for flooding, high water levels and landslide. Selection criteria are described below the table.
4	Households – car loans	This category deals with loans to households secured on electric cars	None	We lack information on electric car tyres. All electric car loans are therefore excluded since most car tyres lead to environmental damage.
5	Local authorities	This category deals with exposure to local and regional authorities	None	Local authorities are not subject to NFRD and no voluntary reporting submitted.
6	Non-financial, not subject to NFRD	Small and medium-sized enterprises	None	This category not to be included in the numerator when calculating GAR for 2023 due to no reporting obligation. No voluntary reporting submitted by reporting date.
7	Other assets not included in calculation of GAR	Government securities, exposures to central banks and trading portfolio	Not relevant	Not relevant
8	Off-balance-sheet assets – financial guarantees and assets under management subject to NFRD	Guarantees or assets under management	None	Reporting is based on the company's/customer's own reporting to SpareBank 1 SMN. No voluntary reporting for 2023 submitted by reporting date.

Table 7: Overview of exposure categories

For the reporting category "Households – mortgages", upper threshold values for green dwellings' energy consumption are set in cooperation with Multiconsult. For dwellings built from 2021 onwards we have utilised an adjusted "Guide on calculation of primary energy needs in buildings and energy frames for almost-zero-energy buildings", including all dwellings with energy rating 'A'. For dwellings built before 2021, the NVE's recommendation for energy consumption in "Mapping of the building stock with the EU taxonomy for environment-friendly investments in mind" is taken as a basis. This requires a valid energy certificate for the dwelling, which is a stricter criterion than that employed in our green bond framework, in which all dwellings built between 2012 and 2020 are included as green dwellings.

As regards the assessment of no significant harm to the objective of climate adaptation, dwellings exposed to physical climate risk (flooding, storm surge, rockslide and landslide) are excluded. This is the same assessment as that applied in chapter 9.2.6 (Physical climate risk).

Taxonomy-related KPIs for 2023

Under EU 2021/2178 (Disclosures Delegated Act) Annex V, we are obliged to report on a number of KPIs. KPIs we are obliged to report on for 2023 are:

1. *Green asset ratio (GAR) stock*
   Total value of sustainable exposures on the balance sheet over total assets (total assets correspond to points 1 to 6 in the table above).
2. *Green asset ratio (GAR) flow*
   Total value of new sustainable exposures in the current year over total assets.
3. *Financial Guarantees (FinGuar)*
   The share of financial guarantees for debt instruments which finance taxonomy-aligned activity over total financial guarantees (point 8 in the table)
4. *Assets under Management (AuM)*
   shows the share of assets under management belonging to undertakings that finance taxonomy-aligned economic activities over total assets under management (point 8 in the table)

Key performance indicators related to *Fees and commissions (F&C)* and *Trading Book* are not mandatory for 2023 reporting, and will not become mandatory until reporting year 2026.

Calculation of Green asset Ratio (GAR), Stock	**Exposure*)**	**Of which taxonomy-aligned**	**Per cent of total assets**
Financial undertakings	23,472	79	
Households	184,182	17,008	
Local authorities	1,224		
Total	**208,878**	**17,087**	**64%**
Other assets not included in numerator	91,263		28%
Total Covered assets	**300,141**		**92%**
Assets not included in GAR scope	24,441		8%
Total assets[1)]	**324,582**		
Green Asset Ratio for the group- total taxonomi aligned assets over covered assets (GAR, Stock)		**5.7 %**	

[1)] GAR is based on exposures and balance sheet in accordance with the scope of consolidation for supervisory purposes (FINREP) pursuant to part II, chapter 2, section 2 of Regulation (EU), no. 575/2013.

Table 8: Calculation of GAR

For detailed results of the year’s calculations, see the Annex VI form in enclosures.

Challenges in 2023 and opportunities ahead

The main reporting challenge in 2023 has been access to data and data quality. SpareBank 1 SMN’s customer portfolio consists largely of small and medium-sized undertakings which are not subject to the NFRD reporting obligation. Moreover, reporting by undertakings subject to the NFRD and any voluntary reporting from undertakings not subject to the NFRD, becomes available at a later point in time, making it a challenge to include such information in reporting for 2023.

In the years ahead more undertakings will be covered by the taxonomy. As more undertakings become subject to the reporting obligation, this type of data is expected to become available in the public domain. The same applies to an industry-wide solution for the car segment as regards tyre information, information on circular economy etc. Such solutions will simplify and improve the quality of companies' reporting in coming years.

Relevant steering documents

The following steering documents are central to this theme:

- Guidelines for sustainable lending to retail customers
- Guidelines for sustainable lending to corporate customers
- Guidelines for sustainable agriculture
- Transition plan for net zero emissions for agriculture
- Transition plan for net zero emissions for commercial property
- Transition plan for net zero emissions for fishery
- Strategy for climate risk
- Climate strategy
- Climate account 2023, group
- Climate account 2023, SpareBank 1 SMN

Stimulating green transition for customers

Our approach to the theme

The group's societal role is to stimulate a sustainable development of Mid-Norway. In order to achieve a successful transition we are reliant on the success of our customers. Stimulating a green transition for our customers is accordingly a core task today and in the period ahead. Moreover, this is a clear expectation apparent in the group's stakeholder dialogue where customers large and small, companies and private individuals alike, provide feedback and demand products and services that spur necessary change. The active influence we exert employs tools such as ESG assessment at customer level, credit policy and pricing, transition plans towards net zero emissions at industry level, advisory services and customer meetings, development of green products and services, along with competency-building measures for companies in the region.

Retail Banking

With its large loan volume to households and the agriculture sector, Retail Banking has the potential to exert substantial influence on customers they interact with in their day-to-day business. In 2023 we worked on joint projects in the ESG sphere with the other banks in the SpareBank 1 Alliance. These involve customer-facing initiatives related to the advisory role, but also regulatory requirements and reporting. Work has for example been done to introduce estimated energy ratings as a basis for measuring greenhouse gas emissions from residential property.

With a basis in this work, new initiatives were launched at year-end which will be pursued into the coming year. The most important ongoing initiatives are the establishment of an ESG model for the retail market, an advisory tool for assessing climate risk, including physical risk, and making credit assessments, and a financial health team. Moreover, both Retail Banking and the unit responsible for agriculture are working on a collaborative dimension as a social actor with a view to product development aimed at offering relevant solutions to our customers.

Corporate Banking

Our credit strategy establishes boundaries and strategic guidelines for the lending business, including an ambition to achieve net zero CO_2 emissions in the loan portfolios by 2050, and a halving by 2030.

In addition to conducting a systematic ESG assessment of all corporate customers, we are well under way to establishing transition plans at industry level with a view to achieving net zero emissions. The transition plans are a central, overarching tool in our effort to steer the loan portfolio towards net zero, and aim to meet our science-based objectives towards 2050 and 2030. The plans illustrate goals, measures and key performance indicators and will support our corporate customers in their process of adapting to an emissions path towards net zero.

Transition plans will be prepared for all key industries in the loan portfolio as a step in supporting our customers' successful transition. Our transition plans sum up what we expect of our customers, and how we as a driver can support them in their work. We have published "transition plans towards net zero" for the Commercial Property and Fishery segments in our Sustainability Library at smn.no. Transition plans for further segments will be prepared and published in 2024, in the first instance for shipping.

Our most important measures in 2024 are to further develop and analyse data culled from our ESG model, to establish transition plans for further industries, to develop green products for our customers and to enhance competencies in sustainability both internally and externally.

Relevant steering documents

The following steering documents are central to this theme:

- Sustainability policy
- Climate strategy
- Sustainability strategy
- Strategy for climate risk
- Guidelines on sustainable agriculture
- Guidelines on sustainable lending to retail customers
- Guidelines on sustainable lending to corporate customers

SpareBank 1 SMN Bank Eiendom Regnskap

Key figures and results 2023

Responsible lending and investments	Target 2023	Results 2023	Target 2024
Losses due to fraud	< 10,000,000 NOK	15,660,000 NOK	< 22,500,000 NOK
Share of managers and employees having completed e-learning course in anti-money laundering and anti-terrorist financing	100 %	97 %	100 %
Loan volume to corporate customers with ESG score	75 %	87 %	90 %
Loan volume to retail customers with ESG score[1)]	20 %	0 %	20 %
Share of loans that meet the requirements for green bonds	Under development	19,1 %[2)]	Under development[3)]
Total greenhouse gas emissions from loan portfolios	1,000 (1000 tCO_2e)	1,034 (1000 tCO_2e)	SBTi[4)]
Share of dwellings in the loan portfolio with an energy rating	90 %	42 %	70 %
Share of commercial properties in the loan portfolio (>1,000m^2) with an energy rating	75 %	21 %	90% of new loans granted

1) The ESG scoring model for the retail market portfolio has so far not been prepared by the SpareBank 1 Alliance.

2) Based on the existing framework as per January 2024.

3) An official definition of the 15% most energy-efficient buildings is not yet available. Access to reliable data is needed to ensure a robust approach.

4) Our objectives as regards greenhouse gas emissions are under preparation as from 2023 in connection with our commitment to SBTi.

Table 9: Responsible lending and investments - key figures and results