

Guidelines for sustainable financing (credit)



Decision by the group management October 2020

Subsidiary objectives: 8.3, 13.2, 14.1, 14.3, 16.4

Background

Financing is one of the Group's sustaining areas of activity. By providing sustainable financing and setting requirements to borrowers, SpareBank 1 Nord-Norge can make a significant contribution to a more sustainable future. Therefore, ESG is included as an integral part of our dialogue with clients, assessments that are made and the solutions that are offered.

Overriding steering documents that encompass the guidelines for sustainable financing are our business strategy, risk strategy, and policy for sustainability and social responsibility.

Ambition, purpose and principles embodied in the policy for sustainability and corporate social responsibility govern all our policies.

All corporate clients must be assessed in accordance with compliance with the law and the relevant points of this policy when applying for financing. Above all, the client must continually strive to live up to internationally recognised conventions and agreements in the field of human rights, indigenous peoples' rights, climate, environment and economy.

Environment

Within the financing area and environment, SpareBank 1 Nord-Norge has chosen to focus on the following subsidiary objectives of the UN's sustainability goals for the period 2019-2020:

- Subsidiary objective 13.2: *Integrate climate change measures into national policies, strategies and planning*
- Subsidiary objective 14.1: *By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution*
- Subsidiary objective 14.3: *Minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels*

Objectives:

- Integrate ESG risk as a natural part of credit assessment.
- Increase our own knowledge of sustainability and climate risk related to relevant business sectors, in particular the marine and property sectors.
- Help customers gain a conscious relationship to sustainability and climate risk, and expect them to take an active attitude towards their own practice in this field.
- Work for a more sustainable loan portfolio.

Some measures to achieve our objectives:

- All employees who have dealings with our corporate clients should know our principles and annually review the guidelines.
- Offer sustainable financing products.
- Assess relevant ESG factors in credit matters.
- Measure carbon-related exposure in the loan portfolio.
- Increase the proportion of financing in renewable energy production.

We achieve some of our objectives by working closely with our clients as follows:

We expect that our clients:

- have a conscious attitude towards climate risk and work to reduce its impact on climate and the environment.
- work actively to prevent ocean pollution in their operations.
- prevent negative consequences for local areas registered on the list of UNESCO World Heritage Sites, wetlands registered in the Ramsar Convention or vulnerable natural areas/protected areas registered by the International Union for Conservation of Nature (IUCN).
- that conduct operations in areas with endangered plant and animal species, including animal species registered on IUCN's red list of endangered species, take consideration to them and minimize interference with nature.
- take measures to prevent water pollution.
- reduce the risk of accidents by applying the best available techniques and have a robust contingency plan.
- do not operate in places where the environmental impact of an accident is unmanageable.
- does not participate in lobbying with the aim of weakening climate policy

We encourage customers to:

- set targets for energy efficiency and reduction of greenhouse gases.
- work to reduce pollution and contribute to best practices for waste management and recycling.
- use renewable energy wherever appropriate.

We do not provide loans to businesses that:

- operate with extraction of or power generation based on thermal coal, oil sands or nuclear power.
- use timber from actors engaged in illegal logging, selling illegally logged timber or deforestation, and/or destroy tropical rainforests, removing primary forest or protected forests (High Conservation Value Forests).
- businesses that start up in areas that already have water shortages, and where such activities might come into conflict with the needs of the local community.

SNN does not currently finance production of fossil energy

Society

Within the financing area and society, SpareBank 1 Nord-Norge has chosen to focus on the following subsidiary objectives of the UN's sustainability goals for the period 2019-2020:

- Subsidiary objective 8.3: *Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services*

Objectives:

- Contribute to providing financing for small and medium-sized enterprises and thereby creating decent workplaces.

Some measures to achieve our objectives:

- Simplify the financing process for small and medium-sized enterprises.

We achieve some of our objectives by working closely with our clients as follows:

We expect that our clients:

- Respect the United Nations Conventions on Human- and Workers' Rights and do not contribute to the violation of these.
- Respect the ILO's eight core conventions, which constitute a minimum of rights to be respected in the workplace. They are divided into the four main categories of prohibition of child labour, freedom of association, prohibition of discrimination and prohibition of forced labour. Safeguard the rights of individuals in war or conflict situations.
- Has zero tolerance for all forms of gender discrimination, including verbal, physical and sexual harassment

We do not provide loans to companies that:

- are in any way involved in the development, testing, production, storage or transportation of controversial weapons or components exclusively intended for controversial weapons including cluster bombs, anti-personnel mines, nuclear weapons, chemical weapons and biological weapons.
- operate with the manufacture of tobacco products or components explicitly intended for such products.
- operate with the production of pornographic material.
- contribute to gross or systematic violations of human- and workers' rights, such as forced labour, serious environmental damage or corruption.

Corporate governance

Within the financing area and corporate governance, SpareBank 1 Nord-Norge has chosen to focus on the following subsidiary objectives of the UN's sustainability goals for the period 2019-2020:

- Subsidiary objective 16.4: *By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime*

Objectives:

- Contribute to prevent economic crime.

Some measures to achieve our objectives:

- SNN has strict procedures for counteracting money laundering and hidden ownership. These must be complied with.

We achieve the objectives by working closely with our clients as follows:

We expect that our clients:

- receive information about our corporate social responsibility and sustainability policies and acquaint themselves with the expectations and challenges embodied in these.
- have zero tolerance for corruption and economic crime in their own operations and the companies they interact with.
- on suspicion of corruption contribute to complete transparency on the part of the company and participate in the investigation of the situation.
- operate with active corporate governance where they have ownership positions.
- document the follow-up of situations that are in conflict with the expectations and challenges in our corporate social responsibility and sustainability policies.
- pay tax in each country they operate
- has a management system that results in immediate action if employees or suppliers are suspected of facilitating tax evasion

We do not provide loans to companies that:

- have not fulfilled our documentation requirements related to real licensees and the origin of funds.

Food production

We expect that our clients:

- respect the right to adequate and satisfactory food.
- Do not have activities related to genetic material and genetic engineering, unless they meet the requirements for approval and processing as described in the United Nations Convention on Biodiversity, the Bonn guidelines and the Nagoya protocol.
- respect the five freedoms for livestock.
- have reduced the transport time for livestock to a maximum of 8 hours.

We do not give loans to

- new constructions that offer extremely narrow living conditions for calves (in single pens), chickens (in cages) and pigs (in feeding pens).

Energy industry

We expect our customers to:

- Carry out impact assessment of water shortages in areas with little water
- Reduce and handle waste in a responsible manner
- That the construction of dams and water infrastructure projects is in accordance with the 7 principles of the World Commission on Dams
- large and multinational companies publish a sustainability report using the GRI-standard

Risk assessment

With the limitations imposed by the paragraphs above, the liquidity portfolio is considered to have a low risk for violations of the social responsibility and sustainability guidelines. The risk assessment is made for all lending operations, not just the current portfolio.

The Bank has assessed that the risk of policy violations is greatest in the following areas:

- Economic crime
- Environmental damage/climate risk

Loans within our policies are subject to varying degrees of risk-taking. Regulatory constraints and our risk appetite, as well as the customer base in northern Norway, imply that the Bank's loan portfolio is dominated by the retail and small-and medium-sized enterprise (SMB) segments. These are segments which are considered by the Bank to have low risk in respect of corporate social responsibility and sustainability.

Lending to other portfolios with exposure to major industrial and power companies are assessed by the Bank to have low to moderate risk in respect of corporate social responsibility and sustainability.

Control procedures

Before new loans are given to new and existing customers, an assessment is made as to whether these satisfy the Bank's requirements to corporate social responsibility and sustainability.

At least annually, a total review of a substantial portion of the Bank's portfolios will be carried out to ensure that the guidelines are complied with.

If the control reveals a violation of the guidelines, a dialogue must be established with the client. The Bank must inform of improvement measures that will result in the loan complying with the Bank's guidelines. Based on the feedback from the client, the Bank's advice for sustainability, corporate social responsibility and ethics should recommend the following measures:

- discontinuation or reduction of the Group's exposure
 - Based on the severity of the violation
 - Based on lack of confidence in the client's willingness to improve
- Retain the loan
 - Based on the feedback from and improvement measures taken on the part of the client