

Adopted by Group Management, 12 October 2020

## Guidelines for sustainability in liquidity management and corporate governance



Subsidiary objectives: 13.3 and 16.4

### **The Environment and Climate Change**

The United Nations Sustainable Development Goals 13.3: *Incorporate mitigation against climate change in policy, strategies and planning at the national level*

### **Society and Corporate Governance**

The United Nations Sustainable Development Goals 16.4: *By 2030, achieve a significant reduction in illegal financial and weapon flows, make it easier to track down and return stolen assets as well as combat all forms of organised crime.*

### **Background:**

SpareBank 1 Nord-Norge is a major custodian of financial instruments and the largest management environment in northern Norway. Our choices in the management of the Group's financial instruments and securities may constitute an important contribution to both the Group's ambition in relation to the UN's sustainability goals, as well as the desire for a greener financial and securities market.

The Group's business strategy and risk strategy set the course for the Group's liquidity management. This includes the Board of Directors' defined risk appetite and capacity within climate risk. Liquidity management must be assessed against our ethical guidelines and policy for sustainability and corporate social responsibility, but the Group's liquidity situation will at all times take precedence over these guidelines. This document sets out the following objectives for the area.

- Integrate ESG risk into investment mandates and liquidity strategy

- Contribute to a greener securities market
- Integrate climate risk in internal stress tests and economic forecasts.

Overarching guidelines:

We expect the companies we invest in:

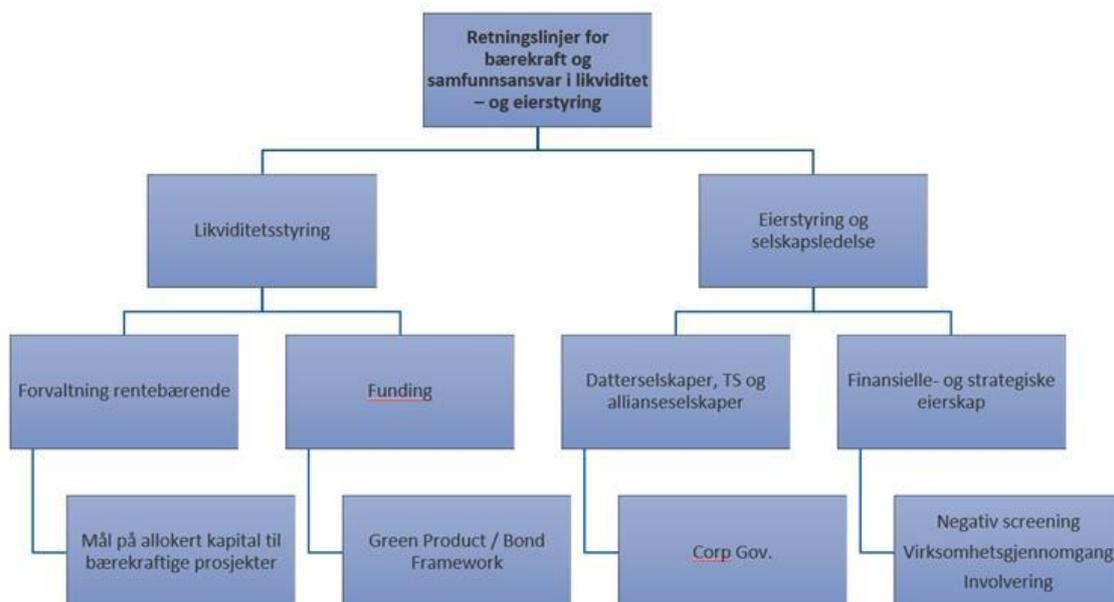
- To treat people in accordance with recognised international standards
- To respect the United Nations Conventions on Human Rights and Workers' Rights and not to contribute to the violation of these.
- To respect the ILO's eight core conventions, which constitute a minimum of rights to be respected in the workplace.
- To safeguard human rights in war and/or conflict situations

SpareBank 1 Nord-Norge does not invest in companies that have more than 5% of their income from the production or sale of

- coal-related activities, pornography, gambling, oil sand or tobacco

## Structure:

The guidelines include the following measures:



## Liquidity management

Liquidity management at SpareBank 1 Nord-Norge includes, among other things, raising loan capital and equity and subordinated loan capital for 'general corporate purposes'. This activity also includes dialogue with rating agencies within credit and ESG, as well as investors and other stakeholders. Liquidity management must reflect the fact that a weakened rating due to violation of the market or regulator's ESG expectations could negatively influence the terms of and access to the group's market financing.

### **Interest-bearing management**

SpareBank 1 Nord-Norge has a portfolio consisting of liquid securities with high credit quality. This is a portfolio that the bank must have to fulfil mandatory requirements for liquidity management. The minimum size and composition of the portfolio are subject to Board adopted strategies and developments in the Bank's balance sheet

The liquidity portfolios of SpareBank 1 Nord-Norge consist of securities issued within the following sectors:

- State and government guaranteed
- Public sector
- Multilateral development banks
- Bonds with preferential rights with issuers within the EEA
- Norwegian industrial and power companies, as well as finance

There are limitations to exposure per counterpart, maturity and rating requirements within the various sectors, for definitions reference is made to the current Liquidity Strategy and Market Risk Strategy.

Measures:

- Establish objectives for allocated capital to future-oriented industries/sectors or companies
- Contribute to greener financing through a special green framework for the Group's foreign capital.

### **Risk assessments for the management of interest-bearing portfolios**

With the limitations imposed by the paragraphs above, the liquidity portfolio is considered to have a low risk of violation of the social responsibility and sustainability guidelines. The risk assessment is made for the entire investment universe, not just the current portfolio.

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

- Economic crime
- Financing of controversial projects
- Environmental damage/climate risk

Investments within the allocated mandates involve varying degrees of risk-taking. Regulatory guidelines mean that the Bank's liquidity portfolio is dominated by securities issued by the state and guaranteed by the government, the public sector, multilateral development banks and covered bonds, primarily from Nordic Issuers. These are sectors and a geographical area which are considered by the Bank to have low risk in respect of sustainability and corporate social responsibility.

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

### **Control Procedures**

Interest portfolio:

Before initiating new transactions, an assessment must be made as to whether they satisfy the Bank's corporate social responsibility and sustainability guidelines. The management of the liquidity reserve is done in its entirety internally by the Bank.

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

If the control reveals violation of the guidelines, a dialogue with the issuer must be established. The Group must provide information about improvement measures that will result in the securities complying with the Group's guidelines. Based on feedback from the issuer, the group's Forum for Risk and Capital Management (RICAP) recommends the following measures:

- Discontinuation or reduction of the Group's exposure
  - o Based on the severity of the violation
  - o Based on lack of confidence in the issuer's improvement
- Retain the security
  - o Based on the feedback from and improvement measures taken on the part of the issuer

### Green Framework:

The Board of Directors of SpareBank 1 Nord-Norge approved the implementation of the Green Product Framework (GPF) in September 2020.



The framework for green financing has, to the extent possible, been established in accordance with EU Taxonomy (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>) and criteria set by the CBI (Climate Bonds Initiative), as well as any well-established market standards. The framework has been subject to external assessment/'second party opinion' from Cicero.

## Corporate Governance

Through wholly or partly owned subsidiaries, alliances, strategic shareholding and trade portfolios, SpareBank 1 Nord-Norge has substantial ownership in other companies.

The purpose of the corporate governance guidelines is to:

1. Ensure that the bank's ownership contributes to promoting responsible and sustainable business activities
2. Reduce the risk of complicity in unwanted business activities
3. Support Norwegian authorities' efforts to protect private individuals and businesses from identity theft, attempted fraud and other economic crimes.

The work on corporate social responsibility and sustainability in corporate governance must, to the extent possible, be integrated in established processes. All employees who deal with corporate governance must be familiar with our principles, guidelines and expectations.

When prioritising work on social corporate responsibility and sustainability in corporate governance, the bank will emphasise the following parameters:

- The risk of negative impact on people, the environment, the economy and society.
- The size and importance of the ownership
- The degree of influence

In cases where corporate governance is exercised in partnership with others, the bank must contribute to ensuring the coordination of priorities and guidelines. Nevertheless, such coordination must not be to the detriment of the bank's own guidelines for corporate social responsibility and sustainability.

The following guidelines apply to the various corporate governance channels:

#### 1. Board representation

SpareBank 1 Nord-Norge must contribute to ensuring that the boards on which the bank is represented possess the necessary expertise, capacity and independence. Board members appointed by the bank must have the expertise to assess risks associated with corporate social responsibility, sustainability and climate risk

#### 2. The bank's participation and actions at and in connection with general meetings

The actual discussion of issues that are raised at the general meetings generally takes place ahead of the meetings. Appointed owner representatives from SpareBank 1 Nord-Norge are expected to remain informed of and involved in issues and processes that are of significant importance to the area of sustainability. Our owner representation must contribute to promoting the bank's objectives and guidelines for corporate social responsibility and sustainability both in the preparation for and when participating in general meetings.

#### 3. Business reviews

The bank must ensure that business reviews adequately address relevant and important topics related to corporate social responsibility and sustainability. Furthermore, the bank must ensure that the company has an appropriate organisation and capacity to operationalise the work on corporate social responsibility and sustainability.

#### 4. Other owner meetings

The bank must contribute to ensuring that relevant and important topics related to corporate social responsibility and sustainability are raised as a separate agenda item at relevant owner meetings.

Measures:

SpareBank 1 Nord-Norge does not make direct investments in companies that are involved in the production of tobacco, pornography, anti-personnel mines or cluster bombs, or in companies in which the development and production of key components for weapons of mass destruction represents a material part of their operations; or in companies which contribute to gross or systematic violations of human and workers rights such as forced labour or serious environmental damage.

SpareBank 1 Nord-Norge has strict procedures for counteracting money laundering and hidden ownership, and wants to contribute to responsible corporate governance, also on the part of our business associates.

- SNN will encourage transparency and good governance models, including ownership structures, investments, transactions, tax payments, business associates, national and international lobbying, etc. SNN will also encourage the preparation of evidence of compliance.
- SNN will comply with legislative requirements and take measures aimed at combating economic crime and acts of terrorism.
- SNN will comply with legislative requirements and expectations from customers, suppliers and society. We will work actively to prevent, discover and report transactions related to the proceeds of crime or with ties to terrorism.