Guidelines on sustainable liquidity management

31 January 2022

Introduction

SpareBank 1 SMN aspires to stimulate a sustainable development of the region. This is enshrined in the group strategy as a strategic priority for the period 2020-2023.

The group's sustainability strategy is the steering document for the group's general policy on sustainability and applies to all aspects of the business. SpareBank 1 SMN would urge all customers, suppliers and partners to abide by the policy and to contribute actively to collaboration for more sustainable value creation in the region. The object of the policy is to:

- Contribute to the group's achievement of its financial objectives in the long term
- Ensure a coherent overall group standard for sustainable development that is independent of geographical location, customer group or organisational affiliation
- Support staff and managers in their strategic decisions and day-to-day work
- Inspire the group's customers, suppliers and partners to commit to take account of the climate and environment, social conditions and responsible corporate governance

With regard to the group's liquidity risk, SpareBank 1 SMN has a portfolio consisting of liquid securities of high credit quality. The portfolio's composition and size are in conformance with steering documents adopted by the board of directors for the liquidity area and with statutory requirements for liquidity management.

The object of the guidelines on sustainable liquidity management is to:

- Concretise the guidelines in the group's sustainability strategy that bear on the liquidity area
- Assess the risk of conflict between the bank's liquidity management and the group's sustainability policy.

All employees involved in the bank's liquidity management are required to be familiar with the bank's sustainability strategy and to review the relevant guidelines on a regular basis. The CFO has overarching responsibility and the Finance Manager is responsible for operationalising the group's liquidity management.

Guidelines on sustainable liquidity management

The bank has strict requirements with regard to companies that may be invested in. Investments are guided in large measure by Norges Bank's rules on collateral for banks' loans. The requirements are clear from the bank's liquidity strategy and policy as regards uncommitted credit lines.

The investments are made in securities traded on established, well-functioning markets, by issuers who are subject to government requirements that support overall ESG requirements, including guidelines with respect to economic crime and terrorist financing, human and worker rights, and are domiciled in regions where importance is attached to environmental, natural and climate risks.

SpareBank 1 SMN's liquidity portfolio comprises interest-bearing securities issued by the following types of issuers:

- The Norwegian state and issuers guaranteed by the Norwegian state
- Foreign states within the OECD area with a minimum AA rating
- Supranational issuers
- Issuers within the OECD guaranteed by the state, a local or county authority
- Nordic local authorities and county authorities, or issuers guaranteed by the same
- Norwegian and foreign financial institutions
- Nordic issuers of covered bonds
- Norwegian issuers in other sectors with a BBB- rating or better.

Investing in liquidity management must be done in a responsible manner. The liquidity portfolio intends to increase its ESG bond holding. The bank's aim is that ESG bonds should account for upwards of 5 per cent of the LCR portfolio. This will include green bonds and bonds with a social profile.

Assessment of the risk of conflict between the bank's liquidity management and the group's sustainability policy

The bank has made a general assessment of the risk of issuers in the portfolio's investment universe finding themselves in breach of the group's sustainability policy. All in all the portfolio is considered to involve little risk of breach of that policy. While the investment scope is relatively broad, the great majority of the portfolio is classified as "low risk". Risk assessments apply in any case to the entire investment universe of relevant investments, not just the individual portfolio. An assessment has also been made of what themes are most relevant in the overall risk picture as regards sustainability. See the table below.

Securities are subject to varying degrees of risk as regards sustainability. On a general basis the bank considers Nordic fixed income securities to pose less risk than non-Nordic fixed income securities. State, county or local authorities likewise pose less risk than private companies. The bank's general risk assessment is based on the following categorisation:

- **Low risk:** category of securities in established, well-functioning markets where government authorities' or undertakings' activities seldom give rise to controversy. Although some OECD states face major challenges in this respect, experience shows that the cases concerned do not loom sufficiently large in the analyses to be ranked as controversial in the present context.
- **Medium risk:** category of securities whose issuers either operate in emerging markets or engage in a type of activity in which controversies are common.
- **High risk:** category of securities of companies that both operate in emerging markets and engage in activities in which controversies are common.

Table 1: Type of security, risk assessment and most relevant theme in sustainability

Securities grouping	**General risk assessment, sustainability/corporate social responsibility**	**Most relevant themes**
Norwegian/Nordic state, county authority, local authority	Low risk	Economic crime, parliamentary consideration of controversial projects (e.g. infrastructure)
Norwegian/Nordic issuers guaranteed by the state, a county or local authority	Low risk	Economic crime, financing of controversial projects. (e.g. infrastructure), environmental damage/natural risks/climate risk
Foreign state within the OECD. Supranational issuers	Low risk	Economic crime, environmental damage/natural risks/climate risk, human rights, international humanitarian rights, controversial weapons/projects
Issuers within the OECD guaranteed by the state, a local or county authority	Low risk	Economic crime, environmental damage/climate risk, human rights, international humanitarian rights, controversial projects
Financial institutions (Norwegian and foreign) and issuers of covered bonds	Low risk	Economic crime, financing of controversial projects, investing in controversial securities
Loans in other sectors	Medium/high risk	All themes listed in the guidelines may be relevant to this group

Controls ahead of investment decisions

To minimise the risk of the bank's investments coming into conflict with the bank's sustainability policy, an assessment must be made prior to new investment decisions in the medium/high risk category.

Periodic control

In order to maintain an overview of the portfolio's holding and the businesses' risk with respect to sustainability, the bank needs to carry out periodic controls (at minimum annually) of the entire portfolio. This is done by the bank's Risk Management (RM) department.

If the control procedure identifies a possible breach of the bank's general policy on sustainability, the investment will be reviewed by Treasury which together with RM will undertake a new assessment of the bank's investment.

In the event of a genuine breach of the bank's policy on sustainability, a report will be made to the bank's board of directors. The balance sheet committee will be involved in handling the breach and decide what measures are to be taken.

Relevant measures:

- that the bank divests from the security
- that the bank initiates a dialogue with the issuer on improvement measures, and thereafter considers divesting the security
    - either because it lacks faith that improvement measures will be initiated and/or that such measures will be sufficiently effective,

    - or because the negative impact is so great that retaining the investment would represent a serious breach of the bank’s sustainability strategy.
- that the bank retains the security because improvement measures are taken and are expected to be sufficiently effective. In such cases the security and the issuer will in all cases be subject to closer follow-up thereafter.