

## GUIDELINES ON SUSTAINABILITY IN AGRICULTURE

### What is sustainable agriculture?

A golden rule of agriculture is:

“Leave the farm to the next generation in a better condition than when you took it over”.

As a farmer you are responsible for managing the property’s resources – land and forest, buildings and livestock alike – in such a way as to provide a good basis for coming generations to continue the farm’s operation and management.

The UN defines sustainable development as development that:

“meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Thus the idea of sustainability has always been a part of farmer’s everyday life, and the bank now wishes to play its part in lifting sustainability in agriculture to a new and higher level.

### Ambition

The bank’s agriculture team embraces the following segments: farming, forestry, animal husbandry, further processing of raw materials and provision of various services on the farm. This is an important industry for SpareBank 1 SMN and is the bank’s second largest portfolio. In terms of loan volume the bank is among the largest banks for agriculture in Norway, and our role under our agriculture policy is to assist in developing the region’s agriculture. This implies a role in the evolution of agriculture that is larger than merely being a supplier of capital. We see ourselves as an important partner for agriculture at the local and regional level, but also nationally through good collaboration with the other banks in SpareBank 1-alliansen.

Agricultural insurance is likewise an important area. Agricultural insurance provides cover for buildings, productions, machinery and other assets along with personal insurances. SpareBank 1 SMN is among the largest providers of agricultural insurance in the region and its explicit aim is to expand. Agricultural insurance is closely linked to the financing side of SpareBank 1 SMN.

The bank has an agriculture team comprising 24 members of staff of whom five are agricultural insurance specialists and 19 are agricultural advisers that provide advisory and funding services to agricultural clients. This is a profit centre in its own right, organised under the Retail Banking Division. The agriculture team works closely with the farming industry – with clients, other agricultural advisory entities and cooperatives alike. SMN has in place credit procedures and a strategy document for agriculture. Each year an ‘agriculture industry analysis’ (*Bransjeanalyse Landbruk*) is prepared which gives good insight into the bank’s activity towards agriculture, not least the current position and assessments of the various productions in agriculture, the framework conditions for this industry and its future prospects along with a risk assessment.

Norwegian agriculture has in place all factors needed to be able to deliver climate-smart and sustainable food. Norway has six unique and sustainable advantages in food production: little

use of medicines (antibiotics), little use of chemicals, animal health among the best in the world, excellent plant health, a small climate footprint and a transparent value chain with good traceability. This provides an excellent basis for robust future food production.

Retail Banking at SpareBank 1 SMN aspires to be a driver of the green transition through concept and product development, a targeted focus on the customer across the group and in collaboration with partners with a view to progressing the green transition; see SpareBank 1 SMN's credit strategy for the period 2021-2024 (KREDITTSTRATEGI 2021-2024). In the agriculture segment SpareBank 1 SMN aims to be a driver of the green transition and aspires to help agriculture achieve the goals set out in the climate agreement (*Klimaavtalen*) between the Farmers Union and the Farmers and Smallholders Union and the central government, and will contribute funding on reasonable terms to initiatives that are in conformance with the climate plan for agriculture (*Landbrukets Klimaplan*). We will support the sustainable management of natural resources, sustainable production on the farms, and will collaborate with customers and relevant agricultural industry players to achieve that end.

The bank aspires to strengthen its advice on sustainable solutions in agriculture, and to encourage sustainable solutions by way of favourable financing. The bank will by that means incentivise customers and business connections to assess the sustainability of their business and consider how it can become more sustainable, and make it more attractive to opt for good, sustainable measures and solutions. We are collaborating with other enterprises and actors in the industry with a view to achieving these strategic objectives. The stewardship precept is a mainstay both for the farmer and advisers in agriculture: a farm property should be passed on in a better state than when the present holder took it over. This creates the basis for a long-term perspective, investment and environment-friendly management.

## Measures initiated for the focus on sustainability in 2021

Completed measures:

- Establish a sustainability document specifically for agriculture in the course of 2021.
- Collaborate with the other alliance banks to prepare industry-specific questions for inclusion in a new ESG module in the loan process.
- The bank has a representative on the project 'the farmer's safety net' (*Bondens sikkerhetsnett*) whose mission is to safeguard the farmer's mental health and livestock welfare. Applies to municipalities where this has been established.
- The bank's agriculture advisers shall be conversant with the sustainability document for agriculture and with applicable laws and regulations, and the object clause of the Norwegian Land Act must be 'ingrained in them'.

Measures in preparation:

- Formulate a credit policy for agriculture of which ESG is an integral aspect
- Formulate an objective for green/sustainable loans in the agriculture portfolio in the course of 2021.
- Collaborate with 'climate-smart agriculture' (*Klimasmart landbruk*) on use of the 'climate calculator' (*Klimakalkulatoren*) in agriculture. The climate calculator is a digital tool specifically developed for the agriculture industry and the Norwegian

farmer. It provides the farmer with an overview of emissions and of the possibilities available both to reduce emissions and to bind the carbon present at farm level. Use of the climate calculator enables low-emission farms to be identified and green bond financing solutions to be devised for those clients.

- Formulate concrete objectives for the number of agricultural clients that use the climate calculator, and incentives to that end. Also, examine incentives to encourage the result of the climate calculator to be used in an advisory context and in preparing a climate plan for the farm.
- Engage in concept and product development, apply a targeted focus on the customer and collaborate with other partners to drive the green transition and sustainable production in agriculture.
- Profiling and marketing of green loans through updating of the website, making a film featuring a customer case and use of social media.
- Collaborate with Nord-Trøndelag Elektrisitetsverk (NTE) to develop energy consulting and banking and insurance services for agriculture.
- In 2021 the bank took steps at the regional level to improve collaboration between institutions in agriculture on how we together can help agriculture attain its climate and sustainability goals. A start-up meeting was held during the AgriTech Nordic conference on 9 September 2021 where the bank was the initiator and organiser of the session.
- Encourage the insurance provider to develop new, sustainable insurance products and further develop existing products with a basis in the sustainability perspective.
- Be a driver of reuse and other environment-friendly initiatives in relation to repairs/reacquisition.
- Steps are being taken in the field of insurance sales to find more sustainable ways to collaborate and obtain customer information that help to lower the climate footprint. Reduced travel activity is an objective.

## Product development green agricultural loans

There is a general need for renewal of, and investment in, operating systems and new technology for adapting farm operation to an agricultural sector undergoing change. Investments related to climate action and animal welfare will become increasingly pertinent. The bank will offer financing on favourable terms as a further incentive to agriculture to opt for farm management solutions that increase sustainability in the climate and animal welfare sphere.

Work on developing green agricultural loans has the following goals:

- To make favourable financing through SMN's Green Agricultural Loans available to farmers that opt for solutions that make their farm and their operations more sustainable.
- To enable SMN to define the proportion of the agricultural portfolio that is loaned to sustainable measures in agriculture.
- To document the effect of the Green Agricultural Loans initiative.
- To enable parts of the agriculture portfolio to be financed through green bonds etc.

## “Green Agricultural Loans Energy Financing”

The bank’s first green loan has already been launched. “Green Agricultural Loans Energy Financing” addresses the use of more sustainable energy sources and energy recovery. It is linked to climate agreement goals concerning fossil-fuel-free heating and use of animal manure as a raw material for biogas plants.

Measures qualifying for a Green Agricultural Loan Energy Financing:

- Solar cell installations where it can be documented that consumption/needs linked to the farm’s production (commercial and private) match the installation’s size and capacity.
- Investment in installations for heating purposes based on non-fossil energy sources. These include bioenergy in some or other form (wood chips, wood pellets, firewood) and/or electrical power of guaranteed origin (green certificate).
- Investment in a heat recovery system, either alone in cases where fossil heating was not present beforehand, or in conjunction with investment in a new heating system (also including solar cell installations).
- “Smart energy financing” is not provided for heat recovery alone, unless the fossil heating medium is replaced.
- Biogas installations at farm level.
- In the case of new buildings, “smart energy financing” is provided for that part of the building and equipment that relates directly to heating and in the event heat recovery, in accordance with a cost breakdown for buildings/equipment.
- Refinancing of a loan to an installation that is already in operation on the farm is provided on the same terms as for new loans. Where loans are merged, “smart energy financing” is provided for that part of the loan that refers to the cost of the installation at the time of the investment.

The bank collaborates with independent energy advisers and has a formal collaboration with the NTE as provider of energy advice to farms where SMN is the financing partner.

As at 9 December 2021 green loans for agriculture are expanded to cover all initiatives with a documented positive effect in terms of making farm operation more sustainable, for example:

- Bioenergy, heat recovery and solar cells. Heat recovery devices without change of heating medium to bio are also accepted since this in itself enables a 50-70 per cent reduction in the use of fossil fuel (e.g. from poultry housing).
- Post-insulation, new windows etc. for farmhouses and extra farm accommodation costing up to NOK 1m where an improved energy rating can be documented.
- Equipment for spreading livestock manure that contributes to reduce air emissions. Examples are snake spreaders and strip tillers.
- Manure tank/manure storage which ensures storage capacity and the ability to spread livestock manure solely in the growing season.
- Covers for manure storage.
- Storage facility for dry manure.
- Surface silo (prevent run-off, reduce use of plastic).

- Improved soil culture – costs incurred on ditching/drainage.
- “Extraordinary” livestock welfare requirements. Additional costs on new buildings and building conversions beyond the regulatory requirements. Examples: stall/pen for cow and calf in the initial period after calving, rubber mat on slatted floors for bulls, lying stalls for bulls, extra space for pigs/poultry.
- Object finance for electric miniloader, tractor etc.
- A switch to specific pathogen-free (SPF) pigs, i.e. to more sustainable pig production. (An SPF herd is free from kidney disease, dysentery, mycoplasma and APP).  
Collaboration with Norsvin.

### Sustainable insurance

SpareBank 1 SMN distributes non-life insurance products for Fremtind, which is owned by SpareBank 1-alliansen (65%) and DNB (35%). Fremtind’s work on sustainability will accordingly be crucial for SpareBank 1 SMN. Fremtind aspires to be the leading insurer in the field of sustainability.

Fremtind will fairly soon launch a new liability insurance product which will relieve the farmer of substantial costs following a damage event involving pollution of nature. According to the Biodiversity Act, an order can be made to return the environment to its original state, which may entail substantial costs for the farmer. Farmers will soon be able to purchase insurance cover against such liability.

### Focal areas in insurance

- The most sustainable measure of all is damage prevention.
- Once damage has taken place, repairs should be carried out rather than a new purchase made. In that way fewer natural resources are consumed and less waste is produced.
- Use insurance settlements to incentivise circular economy efforts on the part of suppliers and to assist customers towards circular solutions.
- Preserve residual values.
- New, more sustainable ways of working have been expedited by the pandemic.

### Economic sustainability

As a financial institution and important provider of credit to Norwegian agriculture, we have a responsibility to ensure that investments in agriculture are sustainable not only with regard to the environment, climate, animal welfare and social conditions, but also economically sustainable. Assessment of and advice on project economics, overall economy and loan structure are three key points in that regard.

### **RISK ASSESSMENT of money laundering and terrorist financing in the agricultural industry**

Each year, in connection with the annual ‘Industry Analysis Agriculture’, the assessment of money laundering and terrorist financing risks in the agricultural sector is updated.

Assessment as of spring 2021:

- The anti-money laundering effort builds on the “know your customer” (KYC) principle, or the “know your customer’s business” principle, which internationally is one of the most important instruments for preventing misuse of the financial system for money laundering or terrorist financing purposes. Prevention of money laundering and terrorist financing is an important societal objective, and compliance with the anti-money laundering legislation is accordingly important for public confidence in the financial industry and SMN.
- The agriculture team considers our knowledge of our agricultural clients and their business to be excellent.
- A survey of money laundering and terrorist financing risk was performed in 2021. The risk of terrorist financing in agriculture was assessed to be ‘extremely low’, while the risk of money laundering in agriculture was assessed as ‘low’. Money laundering received particular consideration in the following perspectives:
  - Money laundering risk related to property transactions and to agriculture as an industry.
    - Property transactions in the agriculture sector are, to a greater degree than other property transactions, regulated by the concessions legislation. This reduces the risk of a transaction being used to launder funds. A further factor is that many such transactions take place within the family.
  - The risk of labour exploitation and tax evasion.
    - There is a certain risk of exploitation of foreign labour, in particular in the production of vegetable crops.
    - There is also a certain risk of tax evasion, in particular for productions (e.g. eggs, vegetables, firewood, hunting rights) where goods and services can be sold without declaring this income.
- The insurance provider Fremtind has in place good procedures for identifying money laundering, for example to ensure that damaged items that are to be replaced were procured using lawfully acquired funds.

### Sustainability as a part of our working methodology

Climate risk is credit risk, and work is under way to integrate sustainability in a good manner into the customer dialogue and into the processing of loan applications.

We are currently implementing sustainability in our steering documents. For the agriculture team this involves the following industry-specific documents in addition to documents employed jointly with Retail Banking and Corporate Banking:

- Industry Analysis Agriculture
- Guidelines on sustainability in agriculture (this document)
- Checklist consulting agriculture
- Plans and goals for agriculture

### Responsible and sustainable advice

Our main ambition as regards advice provided to agricultural clients is that it should be responsibly minded and sustainable. Not only with an eye to economic sustainability: the agriculture adviser should also have the expertise and knowledge required to discuss various strategies and choices facing the farmer, and to be a sparring partner and motivator for

choosing the most sustainable solutions for the farm and its management. The bank will play its part in raising farmers' awareness and knowledge of sustainability.

The agricultural adviser must be familiar with applicable national laws and regulations under which the client operates as well as the international conventions with which clients are expected to comply. In addition, agricultural advisers are required to have a knowledge of the most relevant standards for agriculture which clients are expected to abide by and to have in order:

- Kvalitetssystemet i landbruket, KSL, ('quality system in agriculture'), which is the farmer's own internal control and quality assurance tool. KSL enables the farmer him/herself to check that operations are in line with Norwegian laws, regulations and requirements on the industry. Abiding by KSL ensures that raw materials are sent in a secure manner from the farmer, via the goods recipient, manufacturer, groceries sector and all the way to the consumer. The Norwegian Food Safety Authority has approved KSL as a national standard. In addition to the farmer's internal controls, 5,000 external controls are performed by dedicated KSL auditors.
- Skogbruksplan ('forest management plan'), which includes an overview of woodland/forest resources and environmental assets on the property. This is a prerequisite for assessing economic potential while at the same time protecting important environmental assets. Both forest certification and the regulations on sustainability forestry require, as a rule, registration in the forest habitat inventory in order for the owner to be permitted to cut down and sell timber. Certification sets in addition requirements for planning in forestry.
  - There are at present two certification schemes for forest properties in Norway: Norsk PEFC Skogstandard (Programme for the Endorsement of Forest Certification), and FSC (Forest Stewardship Council) Controlled Wood. Virtually all forest properties where felling has taken place since year 2000 are covered by the PEFC certification scheme.

The agricultural adviser is required to know of other persons and bodies in agriculture that are able to advise the client on sustainable choices and solutions, and to initiate collaboration with them where appropriate.

Agricultural advisers are aware of their obligation to assist animals and to alert the Norwegian Food Safety Authority or the police if they have reason to believe that animals are exposed to maltreatment or serious neglect as regards their supervision or care; see Lov om dyrevelferd (Animal Welfare Act). We are also aware of the heightened risk of irresponsible animal husbandry and poor animal welfare in cases where the client has financial problems, and are therefore extra alert to customers in financial straits. Agricultural advisers are moreover required to know of relevant authorities in their market area (e.g. Landbrukets HMS<sup>1</sup>, the district medical officer, the NLR (the Norwegian Agricultural Extension Service) that can help where a client has mental and/or financial problems and, if necessary, assume responsibility for contacting these bodies.

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<sup>1</sup> Agriculture's health, environment and safety service.

The agricultural advisers are in close proximity to their clients, and often meet them on site. This affords them better information about the farm, the client and his/her operations than if they meet the client at the bank or digitally.

### Loan process

Here, Sjekkliste konsultering Landbruk ('consultation list agriculture') is followed in addition to the policy and guidelines of Retail Banking and Corporate Banking. Project economy and overall economy are assessed. The process takes economic sustainability into account.

At present (10 September 2021) the bank does not finance the following:

- Cultivation of bogland without special permission from the local authority.
- Animal husbandry which is not compliant with applicable legislation – e.g. Lov om dyrevelferd ('Animal Welfare Act'), forskrift om velferd for produksjonsdyr ('Regulations on the welfare of production animals'), and other regulations related to animal husbandry – and animal husbandry that is in breach of the five freedoms for animal welfare: freedom from hunger, thirst and malnutrition; freedom from discomfort; freedom from pain, injury or disease; freedom to express normal behaviour; and freedom from fear and distress.
- Animal husbandry which does not follow the Norwegian Food Safety Authority's advice regarding import and export of animals, production animals, animal transport and slaughtering.
- Initiatives that will have a negative effect on the environment and climate.
- Forestry that is not compliant with the Forestry Act, which lacks an approved forest management plan and is not compliant with the Regulations on sustainable forestry.

The bank expects agricultural clients to operate their business without:

- Engaging in irresponsible use of antibiotics
- Breaching international or national guidelines for biodiversity and genetic engineering, including the UN Convention on Biodiversity (CBD) and the appurtenant Bonn Guidelines and Nagoya Protocol
- Having a harmful impact on wetlands registered in the Ramsar Convention or vulnerable and protected natural areas registered by the International Union for Conservation of Nature (IUCN)
- Causing serious pollution of water, but seeking to prevent pollution of water and maintaining a deliberate awareness of their own water consumption.
- Engaging in irresponsible use of fertiliser and chemicals (ref. KSL)
- Engaging in improper management of waste from their own operations (ref. KSL)

The bank also expects agricultural customers to be concerned with their suppliers' climate footprint and sustainability goals.

Industry-specific ESG questions will be implemented in the loan process in the course of January 2023.