

Environmental, Social, Governance (ESG) policy

SpareBank 1 Boligkreditt

September 2018

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1 Introduction and Purpose of the ESG Policy

The purpose of this document is to create a reference for readers about several factors typically discussed under the heading Environmental, Social and Governance (ESG) policies for banks; it follows a topical template used within ESG analysis.

ESG policies, while always integrated in the operating practice of being a commercial enterprise in a country with high standard and strict regulations in the various ESG areas (such as Norway), have just emerged in the last few years as a separate area of focus within the SpareBank 1 banks. That is the case both concerning specific content and initiatives, but also with regards to the communication of these.

SpareBank 1 is not one consolidated banking group, but an Alliance of Norwegian savings banks. Issuing covered bonds, including green covered bonds for the Alliance, is SpareBank 1 Boligkreditt. The banks, while woven tightly together in both name and branding, banking operations and joint ownership and marketing of financial products companies, including the issuance of covered bonds, are at the same time separate legal organizations located in different cities in Norway. The banks are therefore in slightly different states of developing and implementing their ESG architecture¹. Important developments have taken place, but the banks are expected to continue to refine this over the coming years. This document sets out details of where the banks, including Boligkreditt, are in the area of ESG policy.

2 SpareBank 1 Alliance

2.1 Bank in the Alliance and their business model

The banks working together in the SpareBank 1 Alliance have increasingly built and integrated the alliance model since its foundation in 1996. There are as of 2018 14 banks that are members of the SpareBank 1 Alliance. An important basis for the Alliance is the high degree of similarity of these banks' business models. They are savings banks, which is the oldest type of banks in Norway, and subject to a savings banks law. They are also mostly retail banks servicing private households with mortgages and taking deposits as well as providing several other services and functions to retail clients. In terms of overall lending, households represent approximately 70% of the loan book for the banks in aggregate, with lending to small and medium sized enterprises as well as commercial mortgages making up

¹ As Norwegian retail banks, some Alliance members have, for example, not made all ESG information on their websites available in English (though all sustainability segments/chapters included in their annual reports are in English). That is why some of the weblinks included in this document refer to a Norwegian text only on some banks' website. All website sustainability/ESG related information will be made available in English over time.

the rest. All business activities are limited to Norway. There are four larger (in comparison to the others) and 10 smaller banks in the Alliance. Below is an overview over the Alliance main units:

The SpareBank 1 Alliance banks are:



The SpareBank 1 Alliance banks own and control:

| <u>SpareBank 1 Gruppen</u> | <u>SpareBank 1 Banksamarbeidet</u> | <u>Directly owned companies</u> |
|--|--|--|
| This unit (group) is the holding company for financial subsidiaries which develop and offer financial products that are distributed locally through the banks; the most important subsidiaries are SpareBank 1 insurance and ODIN Asset Management | This is the unit which develops and delivers business platforms, branding and common management and development services for the Alliance banks. These activities enable the banks to achieve economies of scale and competencies. The unit is also a holding company for various specialized subsidiaries | SpareBank 1 Boligkreditt SpareBank 1 Næringskreditt SpareBank 1 Credit cards SpareBank 1 Markest SpareBank 1 Mobile pay BN Bank |

SpareBank 1 Boligkreditt is the main covered bond issuing entity and it is a directly held subsidiary of the banks in the Alliance. Each banks' ownership share in Boligkreditt changes annually in accordance with the use of the Boligkreditt subsidiary, i.e. the relative degree to which each bank has sold and transferred mortgages to Boligkreditt. Other directly and jointly held companies have an ownership model like Boligkreditt or the ownership is fixed. The individual banks have a fixed ownership of SpareBank 1 Gruppen (the Group) or Banksamarbeidet (the Banking Cooperation), which means it is stable over time.

The ownership shares of the individual banks are usually reset annually in December, and are in August 2018²:

² BN Bank is itself not a member bank of the SpareBank 1 Alliance, but is a bank jointly owned by the Alliance banks and also transfers mortgages to Boligkreditt for its covered bond funding.

| | No of Shares | in per cent |
|--------------------------------|-------------------|--------------|
| SpareBank 1 Østlandet | 14,609,237 | 21.08 % |
| SpareBank 1 SMN | 13,754,024 | 19.85 % |
| SpareBank 1 Nord-Norge | 11,679,629 | 16.85 % |
| SpareBank 1 SR-Bank ASA | 5,515,035 | 7.96 % |
| BN Bank ASA | 4,594,517 | 6.63 % |
| SpareBank 1 BV | 4,326,507 | 6.24 % |
| SpareBank 1 Østfold Akershus | 3,143,023 | 4.54 % |
| Sparebanken Telemark | 3,080,939 | 4.45 % |
| SpareBank 1 Ringerike Hadeland | 2,883,045 | 4.16 % |
| SpareBank 1 Nordvest | 1,532,709 | 2.21 % |
| SpareBank 1 Modum | 1,125,280 | 1.62 % |
| SpareBank 1 Søre Sunnmøre | 894,403 | 1.29 % |
| SpareBank 1 Hallingdal Valdres | 853,661 | 1.23 % |
| SpareBank 1 Gudbrandsdal | 766,354 | 1.11 % |
| SpareBank 1 Lom og Skjåk | 547,119 | 0.79 % |
| Total | 69,305,482 | 100 % |

All the SpareBank 1 banks, including Boligkreditt, follow and learn from each others processes and best practices, especially in the area of ESG and certain initiatives included therein. A review of the ESG material on each bank's website and within each annual report will confirm this. It is therefore appropriate in the following text to use examples from one or two of the SpareBank 1 Alliance banks to underline and exemplify what is valid in each institution.

2.2 SpareBank 1 Boligkreditt's Purpose and Function in the SpareBank 1 Alliance

Boligkreditt (or the "Company") is set up in accordance with the Norwegian covered bond law. This means Boligkreditt is legally separate entity from its parent banks, while the Company buys mortgages from the originating banks for the cover pool and finance these by issuing covered bonds in the market. The legal separation is required by law to create highly transparent and ring-fenced, low risk issuers of Norwegian covered bonds, which could help enhance the bonds' market attractiveness. The SpareBank 1 banks obtain their covered bond funding when Boligkreditt buys the mortgages. The mortgages are pre-qualified for the cover pool at the time the banks wishes to sell them. The mortgages are then transferred to Boligkreditt which owns these assets and issues the bonds. While Boligkreditt also invests in bonds in order to keep liquid assets ready for its own upcoming bond repayments, it does not engage in other activities than to fund residential mortgages of the SpareBank 1 banks. Boligkreditt has at present seven full-time employees, but is also operationally tightly integrated with its owner banks, from which the Company acquires services, such as but not limited to accounting, back-office, trade settlement and collateral services. Boligkreditt must therefore be seen as an extension of the operations of its owner banks. In practice the Company functions as a funding department in the area of covered bonds for its owner banks. The ESG rules which apply for the banks and that are expressed in their policies, which are referred to in this document, apply for Boligkreditt in general as well.

3 Household mortgage lending in Norway

3.1 Regulatory Restrictions

The Financial services Authority of Norway (FSAN) regulates banks such as the SpareBank 1 banks. FSAN has developed over time proposals for bank regulatory lending requirements in the area of residential mortgages which the Ministry of Finance sets. These rules have been developed and revised in order to prevent that debt reaches too high and unsustainable levels in Norwegian households, with the subsequent problems this could cause for individuals and by extension, for financial and economic stability. Banks are thus prevented from lending to households amounts that are more than 85% of the value of the property and more than 5 times the annual gross income. Banks must also assess that the customers can afford the loan under circumstances with increasing interest rates (most loans are variable rate in Norway by cultural tradition and decision by the borrower).

Norwegian authorities seek to help prevent the exclusion of people, due to the lending rules, from the housing market by largely three measures:

encouraging building of affordable homes in or around areas of high demand by regulating land, but also by eliminating previous demands in the building code for storage areas, wheelchair accessibility in small flats and requirements for bedroom windows amongst the elements which are expected to reduce construction costs.

The government run and operated State Housing Bank which provides subsidies to financially challenged households, starter loans for buyers and loans for making existing properties environmentally better (less energy intensive which reduces living costs). Lending from this entity to the household sector represent approximately 7.7% of all lending from banks and covered bond issuers in 2018

Offering tax-incentives for younger people (up to 34 years of age) to save specifically for acquiring a primary residence

3.2 Additional Matters

The SpareBank 1 banks are integral components of Norwegian residential real estate finance and operate within the system which is referenced above. Lending is responsible in that it follows all regulations and considers environmental risk as a key factor in the risk assessment in lending decisions, this is communicated on the sustainability sections of the banks websites and their sustainability reporting, and is anchored in the UN Global Compact principles to which the four major SpareBank 1 banks are signatories.

Starting in late 2017 and in early 2018, two banks in the Alliance are offering environmental mortgage loans on the following terms:

SpareBank 1 Østlandet: for energy-efficiency upgrades and construction of new highest degree of energy efficient houses up to 1 million NOK at 0% interest rate for one year, thereafter 0.6% step-up to a maximum 1,80% (a normal rate level is approx.. 3%). The tenor is 10 years, then the loan reverts to standard conditions.

<https://www.sparebank1.no/nb/ostlandet/privat/lan/bolig/gront-boliglan.html>

SpareBank 1 Hallingdal Valdres: up to 1 million NOK (amount varies with the energy efficient measure undertaken) at 0% interest up to 250.000 NOK for 1 year with annual step-ups to 1.5% (loans from 250.000 to 1 million carry a 1.5% interest rate).

<https://www.sparebank1.no/nb/hallingdal/privat/lan/bolig/miljolan.html>

4 Social and Governance Aspects

SpareBank 1 SMN has developed a GRI Index Reporting, which provides an index overview to several of the points below in this document:

<https://www.sparebank1.no/content/dam/SB1/bank/smn/om-oss/om-banken/Vedlegg/smn-GRI-index-eng.pdf>

The other SpareBank 1 banks are in various stages of developing their own GRI Index or reporting and these will appear on the banks' sustainability websites over time.

4.1 Staff and Suppliers

4.1.1 Staff

4.1.1.1 *Freedom of Association*

Norwegian law requires freedom of association (unions), included in Article 11 in the Convention for the protection of Human Rights and Fundamental Freedoms:

https://lovdata.no/dokument/NL/lov/1999-05-21-30/KAPITTEL_emke-1#KAPITTEL_emke-1

Norwegian law prevents discrimination in the workplace of any kind, including any type of information request from the employer or restrictions regarding unions or unionization:

<https://lovdata.no/dokument/NL/lov/2005-06-17-62>

4.1.1.2 Equal Opportunities

Law requirement against any discrimination above applies

Boards of all listed public shareholder companies, including SpareBank 1 banks, are required to have both genders represented at minimum 40% (§6-11 a.):

https://lovdata.no/dokument/NL/lov/1997-06-13-45/KAPITTEL_6#KAPITTEL_6

Boligkreditt as non-listed entity is not subject to this law, has a Board of Directors of currently 6 members, of which 2 are female and 4 are male.

All SpareBank 1 Boligkreditt owner banks are UN Global Compact signatories and follows the 10 principles therein, where principle 6 states that the signatory shall ensure that all discrimination in the work place is rejected, her for example at SpareBank 1 SR-Bank:

<https://www.sparebank1.no/nb/sr-bank/om-oss/samfunnsansvar/baerekraft.html#var-rettesnor>

Gender equality: The SpareBank 1 banks are concerned that men and women shall have equal opportunities in terms of personal development, salary and career. Pay level imbalances are analysed and evened out; here for example from SpareBank 1 SMNs annual report 2017, page 22: [file:///file-home-awf/awf-users\\$/c201123/Redirected%20Folders/Downloads/Annual%20report%202017.pdf](file:///file-home-awf/awf-users$/c201123/Redirected%20Folders/Downloads/Annual%20report%202017.pdf)

SpareBank 1 SNN's 2017 annual report page 31 discusses equal opportunities and diversity and established that there are more women than men in working in the bank and that there are no gender based pay differences.

<https://www.sparebank1.no/content/dam/SB1/bank/nord-norge/OmOss/investor/rapporter/2017/Q4/annual-report-snn-2017.pdf>

SpareBank 1 SR Bank discusses equality in its 2017 Sustainability Report included in the annual report on page 19 and 20: <https://www.sparebank1.no/content/dam/SB1/bank/sr-bank/om-oss/Investor/Rapporter/2017/arsrapport2017/annual-report-2017.pdf>

4.1.1.3 Health and Safety

The Sustainability Report provides a typical overview of health and safety related topics for employees in the SpareBank 1 banks, on page 1 and with some further details in the socio-economic impact analysis on page 5

The Norwegian law regarding the work environment, work hours and protection of position entails a number of specific regulations that all Norwegian companies must observe, health and safety in §4: https://lovdata.no/dokument/NL/lov/2005-06-17-62?q=arbeidsmilj%C3%B8loven.no#KAPITTEL_5

4.1.1.4 *Work-life Balance*

The bank's internal employee handbooks (not publicly available) provide information to employees about benefits and flexible work arrangements in various life stages; for older employees, for young families and for those who may experience personal stress / life crisis. Employees with young children have a contractual right to work flexible hours, reduced hours and working from home.

The SpareBank 1 banks provide additional compensation benefits to employees on maternity and paternity leave, i.e. employees on such time-limited leave receive their normal full compensation for the duration independent of the statutory regulation

A number of regulations concerning work hours in relation to having children, caretaking situations and many more are regulated in the Norwegian law: https://lovdata.no/dokument/NL/lov/2005-06-17-62?q=arbeidsmilj%C3%B8loven.no#KAPITTEL_5

4.1.1.5 *Employment Security*

Governed by the law which apply for all companies in Norway referenced above

4.1.1.6 *Training and Education*

There is an extensive offer of continuous education in relation to work-related career development as agreed in details between management and the employee (source: employee handbook, not publicly available)

See SpareBank 1 SR Sustainability report for example of reference to training and education, page 1: <https://www.sparebank1.no/content/dam/SB1/bank/sr-bank/english/about-us/Social-responsibility/sustainability-report-2017.pdf>

4.1.2 *Suppliers*

All the SpareBank 1 banks have agreed a set of policies with regards to suppliers which reflects the banks' own commitment to ESG goals as set forth in the UN Global Compact. Details are here: <https://www.sparebank1.no/content/dam/SB1/bank/smn/om-oss/samfunn/Vedlegg-10-ENG.pdf>

4.2 Society and Product Responsibility

4.2.1 Society

4.2.1.1 Human rights

Human rights is the first principle in the UN Global Compact which the SpareBank 1 banks adhere to. SpareBank 1 signatories are the four major Alliance banks, and they deliver agreed COPs (Communications of Progress) which can be found via these links below:

SpareBank 1 SMN: <https://www.unglobalcompact.org/what-is-gc/participants/124541-SpareBank-1-SMN>

SpareBank 1 Nord Norge: <https://www.unglobalcompact.org/what-is-gc/participants/121501-SpareBank-1-Nord-Norge>

SpareBank 1 Ostlandet: <https://www.unglobalcompact.org/what-is-gc/participants/113461-SpareBank-1-Ostlandet>

SpareBank 1 SR: <https://www.unglobalcompact.org/what-is-gc/participants/54641-SpareBank-1-SR-Bank>

4.2.1.2 Community

Savings banks (sparebank) in Norway were first created in the beginning of the 19th century by community pooling of resources to provide credit to the community, i.e. some of the first banks were common grain depositaries which could provide a mechanism for seed grain to farmers in the spring time. The savings banks are today either partially self-owned (with external equity investors as the other ownership group) or wholly self-owned institutions (i.e. the smaller banks). The self-owned capital which has been accumulated through the bank's activities over the years traditionally receive a distribution from the savings bank in the form of a gift for communal beneficial projects within the arts, culture, sports and other categories. In this sense the banks are a key pillar of financial support for the communities they are located in. Many savings banks of a certain size have externalised the self-owned or "community capital" in a foundation, for transparency and governance reasons. This foundation typically has only two purposes; to maintain its ownership share in the bank (in the form of bank issued equity certificates or shares that the foundation now owns) and to provide financial gifts for community projects. The foundation of the four major banks in the SpareBank 1 banks all have independent boards which pursue the two statutory tasks, links are below:

Foundation SR-Bank: <https://srstiftelsen.no/om-stiftelsen/#1512457532473-2d960f72-5138aa46-4c5f>

Foundation SMN: <http://sparebankstiftelsensmn.no/sparebankstiftelsen/om-stiftelsen-1>

Foundation SpareBank 1 Østlandet: <https://www.sparebank1.no/nb/ostlandet/om-oss/investor/egenkapitalbevis/sparebankstiftelsen.html>

Foundation SNN: <https://snnstiftelsene.no/>

Most savings banks, due to a required balance of external equity certificates capital (including the foundation's ownership) and internal capital, also provide community gifts directly from the bank, in addition to the distribution through the associated foundation. This is the case for SpareBank 1 SMN, Nord Norge and Østlandet. SpareBank 1 SR has converted to a regular share based structure (instead of equity certificates) and therefore only pays dividends on shares to its foundation.

4.2.1.3 Government Relations / Influence on Public Policy

Finance Norway is the industry association to which also the Savings banks belong. Political work is organized through the association which is the banking industry's official communication and lobbying channel. It participates in public hearings on specific matters (regulatory and law changes) as well as other operating developments in all areas of finance, including banking and insurance.

SpareBank 1 banks make no political campaign or political party financial contributions. There is no public ownership of the SpareBank 1 banks, though public bodies may be invested in equity certificates from time to time, as regular investors. Savings banks, which usually are wholly or majority self-owned (governed) institutions may have appointees from local policy or governing bodies on their boards from time to time, representing the self-owned capital, which is also viewed or referred to as the community capital.

Link to Finance Norway, the banks industry body: <https://www.finansnorge.no/en/>

4.2.1.4 Shareholder Dialogue

Sustainability reporting; each of the major SpareBank 1 banks are UN Global Compact signatories and produce communications on progress to that body, which is publicly available and referenced above under 4.2.1.1

Each of the major SpareBank 1 banks, as well as many smaller banks in the Alliance, have sustainability sections on their websites, where they publish climate accounts, and other sustainability reporting, as well as setting out goals, including GRI reporting in some or most cases. Below are links to the sustainability sections for each major SpareBank 1 bank (sustainability reports have also been integrated in each bank's annual report which is always also available in English).

SpareBank 1 Ostlandet: <https://www.sparebank1.no/nb/ostlandet/om-oss/samfunnsansvar.html>

SpareBank 1 SMN: <https://www.sparebank1.no/en/smn/about-us/sustainability.html>

SpareBank 1 SR-Bank: <https://www.sparebank1.no/en/sr-bank/about-us/baerekraft.html>

SpareBank 1 SNN: <https://www.sparebank1.no/nb/nord-norge/om-oss/samfunnsansvar.html>

4.2.2 Customer and Product Responsibility

4.2.2.1 *Social Impact of Products and Services*

The SpareBank 1 banks are engaged in lending as well as other financial products such as insurance and savings and investment products. For lending products there is no particular social profile beyond that care must be taken that each customer is able to carry and service the debt that is requested, be that for households or for small and medium sized enterprises. For households, this testing is required by the regulator by law, as discussed further above.

Lending for certain types of activities is excluded, these include companies engaged in production of tobacco, pornography, anti-personell mines or clustermines/explosives or other such components for weapons of mass destruction. Further credit is not extended to companies that violate human rights or workers rights such as for example forced labour, damages the external environment or involved in corruption as all of these would be in conflict with the ethical rules of the banks. Some SpareBank 1 banks have also explicitly excluded coal production or extraction and power production based on fossile fuel. Sources for responsible lending practices and policies are:

SpareBank 1 SMN: <https://www.sparebank1.no/en/smn/about-us/sustainability/responsible-credit-processes.html>

SpareBank 1 Nord Norge: "Ansvarlig Kreditt" at: <https://www.sparebank1.no/nb/nord-norge/om-oss/samfunnsansvar/baerekraft.html>

SpareBank 1 Ostlandet: <https://www.sparebank1.no/nb/ostlandet/om-oss/samfunnsansvar/kreditt.html>

SpareBank 1 SR bank is developing a formal exclusion policy for lending and investments as of the time of writing this document.

The SpareBank 1 Asset Management unit Odin and Insurance company SpareBank 1 Forsikring are companies with a clear investment strategy and they assess corporate governance and sustainability in the companies in which they invest

Odin Asset Management: <https://odinfundmanagement.com/odin-focuses-on-sustainability/>

SpareBank 1 Forsikring: <https://www.sparebank1.no/nb/bank/om-oss/samfunnsansvar/barekraft-sparebank1forsikring.html>

General page on ESG for SpareBank 1 Gruppen (see description under point 2.1 above): <https://www.sparebank1.no/nb/bank/om-oss/samfunnsansvar.html>

SpareBank 1 Boligkreditt is only engaged in lending for residential mortgages and exclusion criteria are, in addition to those of the banks to prevent unsustainable lending, related to customer credit quality, regulatory rules applicable to covered bond issuers and special documentation requirements. The Company is developing a focus on aggregating loans from its parent banks which qualify for green covered bond issuance in accordance with the green bond framework, here: <https://spabol.sparebank1.no/green-bonds>

4.2.2.2 Social aspects along the value chain

Marketing by SpareBank 1 banks is responsible and follows Norwegian law. The SpareBank 1 banks have a long history of operating in Norway from the early 19th century. Each bank has a code of conduct which is designed to infuse each institution with a responsible and sustainable ethos.

There are no particular products of a social character. As mentioned above, social lending for residential purposes is carried out by the State loan bank. Private banks must adhere to regulations with regards to affordability (customer debt service capacity) when granting loans. Reduced rates are offered by some SpareBank 1 banks to certain loyalty segments, for example to members in Norway's main employee labour association, LO, and for green loans (those that are taken out to build new energy efficient houses and refurbish older ones).

The banks have ethical rules in place for all employees:

SpareBank 1 SR: https://www.sparebank1.no/en/sr-bank/about-us/investor/corporate-governance/corporate-governance/Code_of_conduct_In_SR-Bank.html

SpareBank 1 SMN: <https://www.sparebank1.no/en/smn/about-us/sustainability/ethics-and-anti-corruption.html> <https://www.sparebank1.no/content/dam/SB1/bank/smn/omoss/samfunn/Vare-prinsipper-for-etikk-og-csr-ENG.pdf>

SpareBank 1 Nord Norge: https://www.sparebank1.no/content/dam/SB1/bank/nord-norge/Dokumenter/SNN-koden_6.november2017.pdf

SpareBank 1 Ostlandet: https://www.sparebank1.no/content/dam/SB1/bank/ostlandet/omoss/samfunn/SB1O_Etiske_retningslinjer.pdf

4.3 Corporate Governance and Business Ethics

4.3.1 Corporate Governance

4.3.1.1 Board Independence

SpareBank 1 Boligkreditt's board of Directors consist of 4 of the CFOs in the ownership banks and two external members (with no direct working relationship in any SpareBank 1 Bank nor any other Norwegian financial institutions). There are 2 women and 4 men on the Board. There are further details in the Boligkreditt annual reports.

The owner banks have board that reflect the law-based requirement in Norway for an even balance between the genders; at least 40% of each gender must be represented on the board of a publicly held savings bank. Employees must also be represented according to law (employees vote a certain share of a savings bank self-governed capital, usually 25%). Board members of a savings bank tend to be people outside the bank with a local anchoring in the community in which the bank operates, such as business leaders and community figures and therefore have a high degree of independence, apart from the management of the bank. The head of a savings bank's foundation, as its largest owner, is typically also on the board. Boards in the SpareBank 1 banks are as follows:

SpareBank 1 SR: <https://www.sparebank1.no/en/sr-bank/about-us/investor/corporate-governance/board-directors.html>

SpareBank 1 Nord Norge: <https://www.sparebank1.no/en/nord-norge/about-us/about-us/board-of-directors.html>

SpareBank 1 SMN: <http://annualreport.smn.no/2017/content/359/Board-of-Directors>

SpareBank 1 Ostlandet: <https://www.sparebank1.no/nb/ostlandet/omoss/investor/virksomhetsstyring/styret.html>

By Norwegian law, boards in financial institutions must have at a minimum the chairman of the board and two thirds of the board's members from outside the bank or wider banking

group of which the institution forms a part, i.e. as external / independent members. Source: law governing financial institutions, §8-4 (1): https://lovdata.no/dokument/NL/lov/2015-04-10-17/KAPITTEL_8#KAPITTEL_8

4.3.1.2 *Shareholder Democracy*

As discussed above the savings banks typically have external equity certificate holders and internal or self-governed capital. Several smaller savings banks, also including some smaller banks in the SpareBank 1 Alliance, are fully self-governed. The self-governed capital in the banks are usually controlled by customers (typically 35%) and employees (typically 25%), while the external equity capital certificate (ECC) capital holders retain a maximum 40% share of the vote in the aggregate. The limitation on the external ECCs vote is required by law. A savings bank may also convert to a regular share based company, where there are only shareholders which unite 100% of the votes at the bank's general assembly and there is no self-governed capital. Only one bank has converted to this structure; SpareBank 1 SR Bank. Other than the limitation on the classes of stakeholders in a typical savings bank, the principle is one ECC one vote (or one share one vote).

SpareBank 1 Boligkreditt's shareholders are the owner banks, i.e. all the banks in the SpareBank 1 Alliance. Because the banks are required to pay in equity capital to Boligkreditt when they transfer mortgages to the Company in order to obtain covered bond funding, the equity stake of each bank is a direct function of the relative share of mortgages of the bank in the Boligkreditt cover pool. In Boligkreditt there is also one share one vote.

4.3.1.3 *Executive Compensation*

Compensation for the Board and Management is detailed in Boligkreditt's annual reports. For all the owner banks, this is also detailed in notes to the annual financial statements

Each bank's annual report / sustainability reports include information on the average salaries split by gender and by management levels. Boligkreditt only has 7 full time employees, but acquires a number of services such as accounting, back and middle office functions and other administrative support such as HR from the parent banks. In this context it is not meaningful to break out gender specific data at Boligkreditt.

4.3.1.4 *Shareholder Structure*

This is detailed in the sections immediately above

4.3.1.5 *Business Ethics*

Business ethics is an important area that is addressed formally by each bank's code of conduct for all its employees, which also includes Boligkreditt as an extension of the banks. See point 4.2.2.2 above for links to the codes of conduct. Boligkreditt is by its service contract for HR services bound specifically to the SR Bank code of conduct, but these will be very similar if not identical for all SpareBank 1 banks.

Link to the code of conduct and ethics for SpareBank 1 SR:

<https://www.sparebank1.no/en/sr-bank/about-us/baerekraft.html#ethics-and-anti-corruption->

The codes of conduct are developed with regards to the principles of the UN Compact which the banks are signed up to.

Compliance training for employees take place regularly in a variety of subjects. Anti-money laundering has a central role and there is both training, materials, check lists and report through a section on each bank's internal website. SR-Bank mentions this in its Sustainability Report included in its annual report 2017, page 21:

<https://www.sparebank1.no/content/dam/SB1/bank/sr-bank/om-oss/Investor/Rapporter/2017/arsrapport2017/annual-report-2017.pdf>

5 Environmental Aspects

5.1 Environmental Policy

The environmental policies of each bank is detailed on the banks' sustainability websites and on Boligkreditt's green bond section of its website. Boligkreditt is aiming to gather as many energy efficient mortgages as possible from the owner banks and finance these by issuing green covered bonds. The criteria for green mortgages are the building energy certificates and improvement in these, but as a proxy until the energy certificates can be made publicly available, recent building codes are used to select mortgages.

SpareBank 1 Boligkreditt has formed a dedicated Green Bond Committee for this purpose; the committee oversees the Green Bond Framework and evaluates any changes to it over time, including providers of external opinions, green ratings and external certifications. The committee consists of (a) Boligkreditt's management, (b) the Chief Financial Officers or Treasurers from the banks represented on the SpareBank 1 Boligkreditt board as well as the ESG responsible officer in each of these banks.

Two SpareBank 1 banks are at the moment offering specific beneficial terms to customers wanting to build new energy efficient housing (passive houses) or refurbish older properties for a specific improvement in energy efficiency. The board of Boligkreditt has decided that there should be an incentive for banks that offer these products, to transfer these mortgages to the green portfolio. The discount for environmental mortgages transferred is 0.05% on the funding costs of these mortgages (which is passed on from Boligkreditt to the banks). The discount is effectively a transfer from all the banks to those banks that

contribute the specifically defined environmental mortgage product. A technical solution to tag these mortgages for the transfer to Boligkreditt is under development.

5.1.1 Environmental Management System

Each of the SpareBank 1 banks are within their environmental policies focused on their own institutions' use of resources and report climate accounts for this purpose with a goal to reduce emission and waste (Boligkreditt is physically co-located with SR-Bank and will be included here on several accounts):

Climate accounts (or reports): Only SpareBank 1 Nord Norge and Ostlandet have produced climate accounts in accordance with the international standard "A Corporate Accounting and Reporting Standard" developed by the Greenhouse Gas Protocol Initiative. The other banks are in a developing phase with regards to this kind of reporting.

SpareBank 1 SR: <https://www.sparebank1.no/en/sr-bank/about-us/baerekraft.html#reports>

SpareBank 1 Nord Norge: <https://www.sparebank1.no/content/dam/SB1/bank/nord-norge/Dokumenter/klimarapport-snn-2017-norsk.pdf>

SpareBank 1 SMN: [page 42 in its 2017 annual report; file://file-home-awf/awf-users\\$/c201123/Redirected%20Folders/Downloads/Annual%20report%202017%20\(1\).pdf](https://www.sparebank1.no/content/dam/SB1/bank/smn/om-oss/samfunn/Barekraft-i-utlan-ENG.pdf)

SpareBank 1 Ostlandet: [https://www.sparebank1.no/content/dam/SB1/bank/ostlandet/omoss/samfunn/SB1O Klimaregnskap.pdf](https://www.sparebank1.no/content/dam/SB1/bank/ostlandet/omoss/samfunn/SB1O_Klimaregnskap.pdf)

With regards to lending and environmental policies, the banks generally exclude coal related companies as noted under 4.2.2.1 above. There is expected to be further refinement in this area, though the business models of the banks mostly involve lending for residential purposes (mortgages) which is at or around 70% and varies slightly depending on which SpareBank 1 bank is meant. The banks do have environmental aspects of lending to small and medium sized companies integrated as a part of their lending risk assessment. SpareBank 1 SMN is an example in setting out a specific discussion by various corporate segments: <https://www.sparebank1.no/content/dam/SB1/bank/smn/om-oss/samfunn/Barekraft-i-utlan-ENG.pdf>

Several SpareBank 1 banks have through their efforts been awarded the Eco-lighthouse designation, a mark of meeting goals for the reduction an organization has on the impact of the environment: <http://www.eco-lighthouse.org/>. Here is a discussion of the certification at SpareBank 1 SMN: <https://www.sparebank1.no/en/smn/about-us/sustainability/environmen-and-procurement.html>

5.1.2 Climate Change Strategy

Reference is made to the points raised above for the strategy. When issuing Green Bonds SpareBank 1 Boligkreditt (SpaBol) takes a lead internally in the SpareBank 1 Alliance to also focus lending to household in an environmental sustainable direction. By issuing Green Bonds, SpareBank 1 intends to contribute to meeting the measurably growing demand of investors for investments in environmentally sustainable projects. The issue of Green Bonds is part of SpareBank 1's attempt, in its role as a financial intermediary, to meet society's objective of reducing global warming.

Boligkreditt issues covered bonds, but is also an investor due to its need to maintain a liquidity portfolio. National and EU regulations require issuers to mitigate liquidity risks by maintaining certain ratios, such as Net Stable Financing Ratio. This means that covered bonds of shorter maturities are replaced early before they are repaid, with proceeds held as liquid assets. The European common legal principles for covered bonds which is now being prepared includes a minimum liquidity reserve of 180 days of outgoing cash flows, which also works in the same way. At June 30, 2018 the SpareBank 1 Boligkreditt liquidity portfolio was approximately EUR 4 bn.

The investment mandate is narrow in order to satisfy both legal requirements of highly liquid and low risk bonds as well as investor expectations of that a specialized Norwegian covered bond issuer includes only narrowly defined liquid instruments as part of its cover pool. The restrictions of the liquidity portfolio is therefore covered bonds issued by Nordic financial institutions with a triple A rating from Moody's, Fitch, S&P as well as government and SSA issuers from the Nordic region and Germany. To the extent possible within its mandate and duration profile of liquid assets Boligkreditt will seek out green covered bonds for its liquidity portfolio. Limitations are found in the primary market for these types of bonds in that they are usually issued with a longer duration than which is possible for the liquidity portfolio to invest in.

5.1.3 Travel and Transport

As car use is one of the major factors of pollution and emissions, but also city congestions, there are initiatives in various Norwegian cities to move more people over on public transportation and bicycles for the daily commute. One example is an extensive bicycle path construction in and around Oslo. In Stavanger, employers work together with an initiative which aim at getting commuters on to bicycles or buses, with discounted pricing for both. SpareBank 1 SR and by extension Boligkreditt are members of this initiative.

The Board of Boligkreditt has decided that for all air journey's undertaken by the company's employees or board members an off-setting Co2 climate quota is to be purchased. The cost and payment of these can be found and paid for on the my climate website in Norway

(<https://norway.myclimate.org>) or directly on the airlines' website when booking tickets there. A return trip between Stavanger, where Boligkreditt is based, and Oslo in economy class is calculated to be NOK 59 in August 2018.

5.1.4 Green Procurement

The common procurement policy for the SpareBank 1 banks is here:

<https://www.sparebank1.no/content/dam/SB1/bank/smn/om-oss/samfunn/Vedlegg-10-ENG.pdf>

5.2 Products and Services

5.2.1 Environmental Impact of Products and Services

The UN Global Compact's three environmental principles are principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies. These, and Norwegian law and regulations in the areas of environmental protection and responsible lending form the basis of the banks' offering of products and services, including lending and investments through the banks themselves or their jointly owned operations such as SpareBank 1 Forsikring and Odin Asset Management. Credit policies, supplier policies and investment policies thus integrate sustainability goals.

As discussed above under 4.2.2.1, three major SpareBank 1 banks (as well as others from the smaller group of banks) are explicitly describing excluded areas from their lending activities, specifically anything coal related. All the banks are in a process of staffing up their ESG monitoring, policy and communication functions and further refinements here are likely in the future, including from SpareBank 1 SR.

5.2.2 Environmental Aspects Along the Value Chain

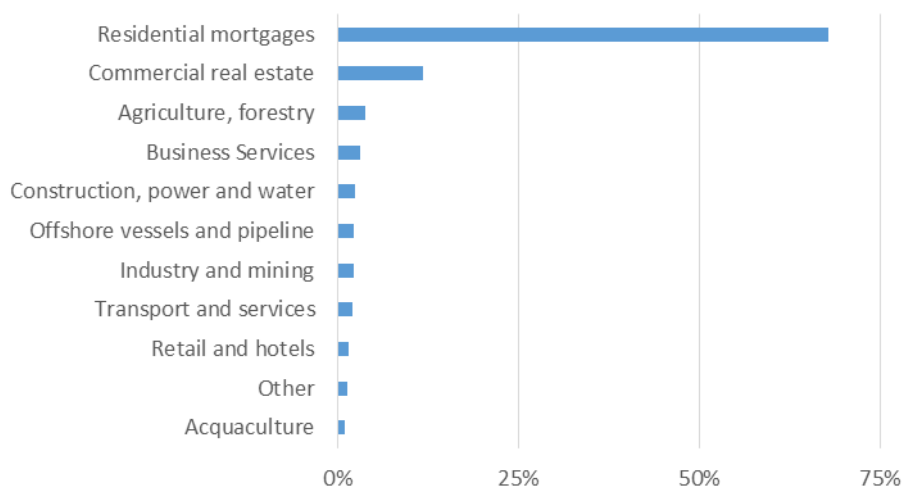
The SpareBank 1 banks provide at present no information on the Co2 emissions of their portfolios of loans or their own or the jointly held companies portfolios of investments.

Boligkreditt reports on the Co2 savings in the green covered bond portfolio in alignment with the green bond principles:

https://spabol.sparebank1.no/uploads/SpareBank_1_Boligkreditt_use_of_proceeds_reporting.pdf

5.2.3 Lending and Investment Banking

SpareBank 1 banks are not engaged in investment banking in a traditional sense or in lending to larger corporates or to larger infrastructure projects. All activities take place in Norway. The aggregate lending book by sector of the four large SpareBank 1 banks is rendered below as of June 30, 2018 (source: banks' financial reporting notes). By adding in the 10 smaller SpareBank 1 banks the Residential mortgages would increase by a few percentage points). Credit policies in the banks in terms of responsible lending have been discussed under 4.2.2.1 above



5.2.4 Asset Management and Own Investment

Policies for asset management and own investments are also founded on the guiding ESG principles as expressed in the UN Global Compact. Reference is made to point 4.2.2.1 above for links to policies for the jointly owned companies Odin Asset Management and SpareBank 1 Forsikring

5.3 Eco-efficiency

5.3.1 Energy Efficiency

Reference is made to point 5.1.1 above which provide links to the climate accounts for the two banks that are already producing those.

5.3.1.1 Carbon Efficiency

Reference is made to point 5.1.1 above

5.3.1.2 Operating and Raw Materials Efficiency

Reference is made to point 5.1.1 above

5.3.1.3 Water Efficiency

Reference is made to point 5.1.1 above