

SR-Bank

SR-Boligkreditt



Green Bond Framework

2019

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1. SR-Bank Sustainability Strategy

SpareBank 1 SR-Bank ASA (SR-Bank) is a responsible corporate citizen. SR-Bank’s goal is to be an organisation that takes a proactive approach to sustainability and responsibility for the environmental challenges society faces. Three main areas must be focused on in order to create sustainable development: the climate and environment, the economy, and social conditions.

Our sustainability responsibilities therefore encompass our products, advice and sales, investment and credit decisions, marketing, purchases, and corporate governance. Our internal work on HSE, ethics and environmental efficiency are also encompassed by our definition of sustainability.

Even though we, as Southern and Western Norway’s largest and leading financial group, primarily focus on our immediate surroundings, we are just as interested in ensuring that everything we do is sustainable in a global perspective.

The group’s sustainability principles are based on the 17 UN Sustainable Development Goals, and as a group we support the UN Global Compact’s ten principles for sustainability. In 2018, SR-Bank played an active role in setting up Global Compact Network Norway in order to strengthen society’s and companies’ work within sustainability.

In August 2019, SR-Bank became a founding signatory of the UN Principles for Responsible Banking.

Incorporating sustainability into SpareBank 1 SR-Bank:



Environment and climate

As a responsible financial group, we take a proactive approach to environmental and climate challenges. We are constantly striving to be a resource-saving and environmentally-efficient organisation by setting requirements for our own organisation, suppliers, and partners. We are working to become a climate-neutral group and continually seeking to reduce the environmental impact of our operations. We use, develop and invest in technology to help us reduce our environmental impact. We also want to enable employees to reduce their environmental impact and make environmentallyfriendly choices. Improving skills in this area could help to ensure that employees become more aware of their impact on the climate and environment, both through their personal actions and through their work in the bank.

In 2018, we registered energy and climate accounts based on the international “Corporate Accounting and Reporting Standard” for the first time. This standard was developed by the Greenhouse Gas Protocol Initiative – the GHG Protocol. The climate accounts show tonnes of CO2 that are direct and indirect emissions related to the group. These are greenhouse gas emissions that come from consumption due to, for example, travel,

waste management, and energy use. Based on the climate accounts, the group can identify which sources impact the external environment and implement concrete measures to minimise them.

Responsible Credit

Credit is the bank's core business area and corporate customers constitute an important part of this. Our credit strategy stresses that corporate customers must have a long-term perspective and their companies must be comply with applicable laws and regulations, which include environmental considerations and human rights. Our corporate market portfolio is well-diversified with an emphasis on commercial property, oil and gas, agriculture, and traditional industry.

As a bank, we primarily finance small and medium-sized Norwegian enterprises. We aim to be a positive contributor and sparring partner in order to improve companies' awareness and practices related to sustainability. Overarching guidelines specifying sustainability were adopted for the corporate market in 2018. According to the guidelines, the group should not give loans to organisations that extract, or produce power based on coal or nuclear power. The guidelines require sustainability to be assessed as part of our credit processes and the purpose of the guidelines is to provide corporate advisers with a framework for assessing a company in relation to sustainability and ensuring that we carry out an assessment of the extent to which a customer's business model is sustainable.

Responsible Investments

SR-Bank seeks to ensure that sustainability issues are always considered when making investment decisions. This goes for investments made by the bank itself, or through our fully owned asset management company, SR-Forvaltning. SR-Forvaltning is a signatory of the UN Principles of Responsible Investment and use ESG integration and active ownership to ensure that the funds are managed responsibly. Our guidelines for responsible investments can be found in our [sustainability library](#).

Green products and green innovation

SR-Bank expects the demand from customers and investors for green products to grow in the coming years. Green products are defined as savings and credit agreements that contain conditions concerning whether the investment object is sustainable in a climate and environmental sense. In 2018, the group's corporate market established favourable credit conditions for renewable investments. SR-Bank offers retail customers green car loans aimed at electric cars and we offer a car app for smart car insurance that is intended to encourage greener driving behaviour through Fremtind.

In 2019, we will work on developing green products for both the retail market and the corporate market.

Further detail regarding our approach to sustainability can be found in our [sustainability report](#).

Rationale for issuing Green Bonds

SR-Bank believes that Green Bonds are an effective tool to channel financings to projects that have demonstrated clear environmental or climate benefits and contribute to the achievement of the UN Sustainable Development Goals (UN SDGs). By issuing Green Bonds, SR-Bank intends to align its funding strategy with its mission, sustainability strategy and objectives. In fact, SR-Bank sees responsibility for the environment and the society as a sustainability priority and intends to create sustainable developments, while respecting the environmental resources.

In addition, SR-Bank aims to contribute to the development of the green bond market and to the growth of SRI investing. Lastly, Green Bonds will help to identify SR-Bank's investor base and broaden discussions with existing investors.

2. SR-Bank Green Bond Framework

In line with SR-Bank's Sustainability Strategy and commitment to sustainable development, SR-Bank has established this Green Bond Framework under which it can issue Green Bonds (as defined below), to finance or refinance loans promoting environmental and social progress.

There are two types of bonds that SR-Bank can issue under this Green Bond Framework:

- a) **"Green Covered Bonds"** issued by SR-Boligkreditt AS. Bonds where the proceeds will be used to finance or re-finance, in part or in full, new and/or existing **residential green buildings** (as defined in the section "Use of Proceeds" below)
- b) **"Green Unsecured Bonds"** issued by SR-Bank ASA. Bonds where the proceeds will be used to finance or re-finance, in part or in full, an array of new and/or existing green projects (as defined in the section "Use of Proceeds" below)

The ICMA Green Bond Principles are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the green bond market by clarifying the approach for issuing a green bond. In alignment with the ICMA Green Bond Principles 2018, SR-Bank Green Bond Framework is presented through the following key pillars:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External review

For each Green Bond issued, (i) Use of Proceeds (ii) Project Evaluation and Selection (iii) Management of Proceeds, (iv) Reporting, and (v) External review will be adopted subject to and in accordance with this Green Bond Framework as amended from time to time.

3. Use of Proceeds

SR-Bank intends to allocate the net proceeds of the Green Bonds to a loan portfolio of new and existing mortgages for energy efficient residential buildings in Norway (Residential Green Buildings), loans to energy-efficient commercial properties (Commercial Green Buildings) and loans to Renewable Energy.

While SR-Bank aims to document an exact project or asset financed, also general corporate purposes loans to “pure play” green companies can be funded with net proceeds from Green Bond issuances.

A pure play company is defined as a company deriving over 90% of its revenue from the Green Loan categories as defined below.

The eligible loans are to be funded in whole or in part by an allocation of the bond proceeds in the following categories:

ICMA GBP category	Definition	UN SDGs ¹	Core UN SDGs Target	EU Environmental Objective ²
Green Buildings	Loans or investments to finance new or existing <i>residential, commercial or public buildings</i>	  	<ul style="list-style-type: none"> • Target 7.3: By 2030, double the global rate of improvement in energy efficiency • Target 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies • Target 11.3: By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries 	<ul style="list-style-type: none"> • EU Environmental Objective (1): <u>Climate Change Mitigation</u> • Substantial contribution to Climate Change Mitigation (1.b): Improving energy efficiency in all sectors, except energy generation using solid fossil fuels, and at all stages of the energy chain, in order to reduce primary and final energy consumption
Renewable Energy	Loans aiming at financing the equipment, development, manufacturing, construction, operation and maintenance of renewable energy generation sources	 	<ul style="list-style-type: none"> • Target 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix • Target 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries 	<ul style="list-style-type: none"> • EU Environmental Objective (1): <u>Climate Change Mitigation</u> • Substantial contribution to Climate Change Mitigation (1.a): Generating, storing, distributing or using renewable energy in line with the Renewable Energy Directive, including through using innovative technology with a potential for significant future savings or through necessary reinforcement of the grid

¹ In alignment with ICMA “Green and Social Bonds: A high-level mapping to the Sustainable Development Goals”: <https://www.icmagroup.org/green-social-and-sustainability-bonds/mapping-to-the-sustainable-development-goals/>

² In alignment with EU Taxonomy Environmental Objectives as defined in Article 5 (Amendment 41) and Article 6 (Amendments 42,66 and 99): http://www.europarl.europa.eu/doceo/document/TA-8-2019-0325_EN.html

Clean Transportation	Loans aiming at financing or refinancing production, establishment, acquisition, expansion, upgrades, maintenance and operation of low carbon vehicles and related infrastructures		<ul style="list-style-type: none"> • Target 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons 	<ul style="list-style-type: none"> • EU Environmental Objective (1): Climate Change Mitigation • Substantial contribution to Climate Change Mitigation (1.c): Increasing clean or climate neutral mobility
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SR-Bank has relied on the support of an external green real estate consultant Multiconsult ASA to define the associated eligibility criteria below³.

The Eligibility Criteria used to earmark Eligible Green Assets for SR-Bank’s green bond are set out below. Such Eligibility Criteria comply with the recommendation of the Technical Expert Group (TEG) report on the EU Taxonomy published at the end of June 2019⁴, which establishes a system to classify environmentally-sustainable activities by setting out metrics and thresholds.

a. Residential Green Buildings:

1. New residential buildings in Norway (built after 2009)

- i. New or existing Norwegian apartments that comply with the Norwegian building codes of 2010 (TEK10) or 2017 (TEK17). Hence, built after 2012⁵.
- ii. New or existing Norwegian other residential dwellings that comply with the Norwegian building codes of 2007 (TEK07), 2010 (TEK10) or 2017 (TEK17). Hence, built after 2009⁵.

Building code	Specific energy demand apartment buildings (model homes)	Specific energy demand other dwellings (model homes)
TEK 07	N/A	126 kWh/m ²
TEK 10	110 kWh/m ²	126 kWh/m ²
TEK 17	92 kWh/m ²	107 kWh/m ²

2. Residential buildings in Norway (built before 2009)

Existing Norwegian residential buildings built using older building codes than TEK10 for apartments and TEK07 for other residential dwellings with EPC-labels A, B and C. These buildings may be identified in data from the Energy Performance Certificate (EPC) database.

3. Refurbished Residential buildings in Norway with an improved energy efficiency of 30%

One of two criteria below must be met:

- i. Refurbished Norwegian residential buildings with at least two steps of improvement in energy label compared to the calculated label based on building code in the year of construction.
- ii. Refurbished Norwegian residential buildings with at least a 30% improvement in energy efficiency measured in specific energy, kWh/m², compared to the calculated label based on building code in the year of construction.

³ The report will be published on the SR-Bank website.

⁴ https://ec.europa.eu/info/publications_en

⁵ A two year lag between implementation of a new building code and the buildings built under that code must be taken into account. This means that all residential apartment buildings finished in 2012 and later and all other residential dwellings finished in 2009 and later are all eligible for Green Bonds under this criteria. This is in line with the criteria as set by the Climate Bonds Initiative Standard and Guidance on Low Carbon Residential Buildings, <https://www.climatebonds.net/standard/buildings/residential>

b. Commercial Green Buildings:

- 1. New or existing commercial buildings belonging to top 15% low carbon buildings in Norway⁶:**
 - i. New or existing Norwegian **hotel and restaurant buildings** that comply with the Norwegian building code TEK07, TEK10, TEK17 and later building codes. Hence, built after 2011⁷.
 - ii. New or existing Norwegian **office, retail and industrial buildings and warehouses** that comply with the Norwegian building code TEK07, TEK10, TEK17 and later building codes. Hence, built after 2010⁷.
 - 2. New, existing or refurbished commercial buildings which received at least one or more of the following classifications:**
 - i. LEED “Gold”, BREEAM or BREEAM-NOR “Excellent”, or equivalent or higher level of certification
 - ii. Nordic Swan Ecolabel
 - 3. Refurbished Commercial buildings in Norway with an improved energy efficiency of 30%:**
 - i. Refurbished Norwegian commercial buildings with at least two steps of improvement in energy label compared to the calculated label based on building code in the year of construction
 - ii. Refurbished Norwegian commercial buildings with at least a 30% improvement in calculated energy efficiency, kWh/m² delivered energy to the building, compared to the calculated energy efficiency based on building code in the year of construction.
- c. Renewable Energy:** Loans to finance or refinance equipment, development, manufacturing, construction, operation, distribution and maintenance of renewable energy generation sources from:
- i. Hydro power in Norway, limited direct emissions of less than 100g CO₂e / kWh:
 - o Run-of-river, small scale hydro power plants (maximum generation capacity < 20MW)
 - o Refurbishment or refinancing of existing medium or large hydropower plants
 - ii. Wind projects (Onshore and offshore wind energy projects)
 - iii. Solar projects (Photovoltaic energy projects)

All renewable energy assets will conform with limited direct emissions of less than 100g CO₂e / kWh.

- d. Clean Transportation:** Loans to finance or refinance production, establishment, acquisition, expansion, upgrades, maintenance and operation of low carbon vehicles and related infrastructures:
- i. Low carbon vehicles:
 - o Fully electrified, hybrid (with direct emissions ≤50 gCO₂e/pkm) or hydrogen passenger vehicles such as cars
 - o Fully electrified or hydrogen freight vehicles such as ferries or vessels
 - ii. Low carbon transportation infrastructure: infrastructure related to electric transportation of passengers such as charging stations for electric vehicles

⁶ In accordance with the methodology defined by Multiconsult

⁷ A conservative time lag between implementation of a new building code and the buildings built under that code is taken into account in Multiconsult’s technical report, hence all hotel and restaurant buildings finished in 2011 and later (3 year lag) and office, retail and industrial buildings finished in 2010 and later (2 year lag) are all eligible under this criterion.

4. Process for Project Evaluation and Selection

A dedicated Green Bond Committee has been established to create this Green Bond Framework. Projects financed and/or refinanced through the Green Bond proceeds are evaluated and selected based on compliance with the Eligibility Criteria. The committee consists of members of the Corporate Division, Communication and Social Responsibility and senior officials within SR-Bank's funding team. The committee will manage any future updates to the Framework, including expansions to the list of Eligible Categories and changes in the green bond market standards (such as the introduction of the EU Green Bond Standards) on a best effort basis, and oversee its implementation. The eligible Green Portfolio will be evaluated according to the use of ESG criteria and focusing on the relevant and the material issue.

For the category Green Buildings, SR-Bank has relied on the support of an external real estate expert consultant Multiconsult to (1) define the associated eligibility criteria for the top 15% of low carbon buildings and the eligible regulations, standards and certifications and (2) to identify the buildings that comply with these criteria within SR-Bank's existing portfolio of real estate. Information from the Land Register regarding building year for all buildings is used. For newly originated loans, the Green bond Committee will oversee the process for the evaluation and selection of Eligible Green Loans according to the methodology defined by the consultant.

For the category Renewable Energy, SR-Bank only finances 100% renewable energy production. This portfolio comprises of small hydropower plants and regional hydropower plants. With respect to large hydroelectric power plants and the development of infrastructure thereto, we require enterprises we finance or invest in to meet the seven principles of the World Commission on Dams.

SR-Bank takes care that all selected Eligible Assets comply with official national and social standards and local laws and regulations on a best effort basis. It is part of the transaction approval process of SR-Bank to take care that all activities comply with internal environmental and social standards, including those financed with the proceeds of the Green Bonds. These eligibility criteria and minimum requirements and ESG related matters are continuously developed and renewed in its external and internal policy frameworks. SR-Bank's environmental and social policies can be found on here: [Sustainability](#).

5. Management of Proceeds

The Green Bonds proceeds will be managed by SR-Bank in a portfolio approach.

SR-Bank intends to allocate the proceeds from the Green Bonds to a portfolio of loans that meet the use of proceeds eligibility criteria and in accordance with the evaluation and selection process presented above, the Eligible Green Loan Portfolio.

SR-Bank will strive, over time, to achieve a level of allocation for the Eligible Green Loan Portfolio that matches or exceeds the balance of net proceeds from its outstanding Green Bonds. Eligible Green Loans will be added to or removed from SR-Bank's Eligible Green Loan Portfolio to the extent required.

While any Green Bond net proceeds remain unallocated, SR-Bank will hold and/or invest, at its own discretion, in its treasury liquidity portfolio, in cash or other short term and liquid instruments, the balance of net proceeds not yet allocated to the Eligible Green Loan Portfolio.

6. Reporting

SR-Bank intends to make and keep readily available green bond reporting after a year from the issuance, to be renewed annually until full allocation.

SR-Bank intends to show the allocation and impact of the green bond proceeds to the Eligible Green Loan Portfolio at least at the category level and on an aggregated basis for all of SR-Bank's green bonds and other potential green funding outstanding.

SR-Bank intends to align the reporting with the portfolio approach described in "Green Bonds- working towards a Harmonised Framework for Impact Reporting (June 2019)"⁸.

Allocation Reporting

The allocation report will provide, on a portfolio basis, on indicators such as:

- the total amount of proceeds allocated to eligible loans
- the number of eligible loans
- the balance of unallocated proceeds
- the amount or the percentage of new financing and refinancing
- the geographical distribution of the assets (at country level)

Impact Reporting

The impact report* may provide:

- Description of the Green Projects
- The breakdown of Green projects by nature of what is being financed (financial assets)
- Metrics regarding projects' environmental impacts as described below:

Eligible Project Category	Potential Impact Indicators
Green Buildings	<ul style="list-style-type: none"> ▪ Estimated ex-ante annual energy consumption in KWh/m2 or energy savings in MWh ▪ Estimated annual reduced and/or avoided emissions in tons of CO2 equivalent ▪ For other categories SR-Bank may provide impact indicators whenever practicable.
Renewable Energy	<ul style="list-style-type: none"> ▪ Total installed capacity in MWh ▪ Estimated annual avoided emissions in tons of CO2 equivalent
Clean Transportation	<ul style="list-style-type: none"> ▪ Low carbon vehicles: Number of vehicles (units per year) ▪ Low carbon infrastructure: Number of EV's ▪ Estimated ex-ante annual GHG emissions reduced / avoided in tons of CO2 equivalent vs fuel-based powertrain vehicles

*SR-Bank has appointed a specialised green consultant Multiconsult to develop the methodology for the estimation and calculation of the impacts for all categories. The impact report will be provided on a portfolio basis.

Both allocation report and impact report will be made available via SR-Bank's website. SR-Bank intends to align its Green Bond Reporting with the recommendation of the Technical Expert Group (TEG) report on the EU Green Bond Standards⁹, published in June 2019 and any further updates, on a best effort basis.

7. External review

Second party opinion

SR-Bank will obtain an independent verification assessment to confirm the validity of the SR-Bank Green Bond Framework. The independent verification report will be published on the bank's website.

Verification

SR-Bank may request on an annual basis, starting one year after issuance and until maturity (or until full allocation), a limited assurance report of the allocation of the bond proceeds to eligible assets, provided by its external auditor.

SR-Bank has the intention to obtain accreditation of the CBI certificate for green covered bond issues.

⁸ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Handbook-Harmonized-Framework-for-Impact-Reporting-WEB-100619.pdf>

⁹ https://ec.europa.eu/info/files/190618-sustainable-finance-teg-report-green-bond-standard_en

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