



SpareBank 1 Boligkreditt

Green Bond Framework

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# SpareBank 1 Boligkreditt Green Bond Framework

## 1. SpareBank 1 Sustainability Strategy

SpareBank 1 is a Norwegian savings bank alliance. The 14 member banks jointly own the company SpareBank 1 Group (SpareBank 1 Gruppen AS), which in turn is the holding company for various SpareBank 1 financial services companies in Norway, including SpareBank 1 insurance and asset management (Odin Forvaltning) companies. The 14 individual member savings banks, which operate their household and corporate lending activities in each of their respective Norwegian regions, are also joint owners of the SpareBank 1 bank cooperation (Banksamarbeidet DA) which organises several joint activities of the alliance member banks. The member banks jointly own the covered bond issuer SpareBank 1 Boligkreditt. Overall, SpareBank 1 is Norway's second largest banking group with approximately NOK 1,065bn of total assets as of 3Q 2017. SpareBank 1 Boligkreditt solely acquires residential mortgages from the SpareBank 1 alliance member banks in order to refinance these in the covered bond market. SpareBank 1 Boligkreditt's mortgage portfolio of NOK 176 bn as of 3Q 2017 represents the major part of the total assets of the specialised mortgage credit institution, with a liquidity portfolio as well as market hedges and associated collateral held forming the other constituent parts of the balance sheet.

The SpareBank 1 banks continuously seek to improve efforts and activities which contribute to increased sustainability. All the major member alliance banks (approximately 80 per cent. of the total assets of the SpareBank 1 banks) have signed up for the United Nations Global Compact, which is the world's largest corporate sustainability initiative. This means that they work to integrate sustainability aspects in their business operations in the areas of human rights, labour, the environment and anti-corruption. The banks' jointly owned asset manager, Odin, is a signatory of the Principles for Responsible Investment (PRI) and the SpareBank 1 Group is a sponsor of the Global Opportunity Explorer which is an initiative to integrate the UNs Sustainable Development Goals into practical solutions for cities and business opportunities for companies.

The SpareBank 1 member banks have notably taken initiatives in regards to climate change. The alliance banks are legally independent entities and therefore both business practices and initiatives, such as concrete steps to protect the environment, may be slightly different across the banks. The member banks nonetheless work closely together in a number of areas and tend to develop and identify best practices collectively over time.

- Each bank details its own use of resources in an environmental impact report. Each bank seeks to reduce the use of resources and the use of such resources' negative impact on the environment. In SpareBank 1 Nord-Norge, Ostlandet and S-Bank for example, the banks produce an energy and climate report, which gives a detailed account of the CO<sub>2</sub> equivalent emissions for each organisation. The reports for these two banks follow the international standard "Corporate Accounting and Reporting Standard" which was developed by the "Greenhouse Gas Protocol Initiative". The purpose of this type of report and accounting is to address and reduce overall climate gas emissions in the organisations<sup>1</sup>.
- All the banks have developed a joint policy on sustainability for suppliers encompassing all four major areas of sustainability, including environmental factors.
- Several SpareBank 1 member banks, including three of the largest banks, are certified as 'Eco-lighthouses' in Norway. This is an initiative where over 5400 Norwegian private companies, public institutions and other organisations have become certified and follow certain industry specific rules and principles to reduce their

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<sup>1</sup> The accounts for SpareBank 1 Nord-Norge for 2016 show that overall CO<sub>2</sub> equivalent emissions were reduced by 23.4 per cent compared to 2015 levels (Ostlandet reduced their emissions by 13 per cent in 2016). As a major SpareBank 1 Boligkreditt shareholder, SpareBank 1 Nord-Norge discloses under the environmental sustainability section of its website that the organisation's goal is to reduce its own climate gas emissions further. Amongst other things, the bank is working to become paper-less starting in 2020. This is in accordance with the responsibility as a Norwegian major financial institution to contribute to Norway's goal of a reduction in climate gas emissions.

environmental impact. The EU recognised Norway's Eco-lighthouse arrangement in December 2017, meaning it complies with the eco-management and audit scheme (EMAS) in the European Union.

- The lending activities of the SpareBank 1 banks are limited to Norway and approximately 2/3rds of the aggregate lending volume in the alliance member banks are for household mortgages. The remainder is lending to small and medium sized enterprises. The banks are at various stages of documenting their lending standards publicly, but environmental risks are an integral part of the risk assessment procedure in each bank. Central to this is an assessment whether each corporate client is complying with all environmental laws and regulations. Regarding ethical aspects, an assessment is made with respect to a business customer potentially being engaged in activities which harm the physical environment. Norway's regulatory regime is rules-based and strict and considered to be a leading European regime (Norway is a signatory of the Paris climate agreement from 2015). In addition to this, certain industries are excluded from the banks' lending programs. SpareBank 1 Nord-Norge, for example, details under its sustainability webpages that all companies involved in power generation based on fossil fuels and coal extraction are excluded from their lending activities.

In alignment with the SpareBank 1 sustainability strategy, SpareBank 1 Boligkreditt is considering to issue a Green Bond to finance or refinance mortgages for energy efficient residential properties with lower energy needs and consumption. Given SpareBank 1's leading presence in the Norwegian residential mortgage market, the intended Green Bond transaction serves as a testament to SpareBank 1's leadership and commitment to sustainability.

## **2. SpareBank 1 Boligkreditt Green Bond Framework**

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 2017, SpareBank 1 Boligkreditt's 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

SpareBank 1 Boligkreditt 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). The eligible loans are to be funded in whole or in part by an allocation of the bond proceeds.

SpareBank 1 Boligkreditt has relied on the support of an external green real estate consultant Multiconsult ASA to define the associated eligibility criteria below<sup>2</sup>. Eligible Residential Green Buildings must meet one or more of the following eligibility criteria:

#### 1. New residential buildings in Norway (built after 2009<sup>3</sup>)

New or existing Norwegian residential buildings that comply with the Norwegian building codes of 2007 (TEK07), 2010 (TEK10) or 2017 (TEK17).

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

#### 2. Residential buildings in Norway built before 2009<sup>4</sup>

Existing Norwegian residential buildings built using older building codes than TEK07 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%<sup>4</sup>

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/m<sup>2</sup>, compared to the calculated label based on building code in the year of construction.

### 4. Process for Project Evaluation and Selection

A dedicated Green Bond Committee has been established to create this Green Bond Framework. The committee consists of certain members of the SpareBank 1 Boligkreditt Board (which are also CFOs in SpareBank 1 Alliance member banks) and members of SpareBank 1 Boligkreditt's management. The committee will manage any future updates to the Framework, including expansions to the list of Eligible Categories, and oversee its implementation.

For newly originated loans, i.e. loans which will be originated after SpareBank 1 Boligkreditt's inaugural issuance and for existing loans for which detailed information has become available (such as Energy Performance Certificates) the Green

<sup>2</sup> The report will be published on the SpareBank 1 Boligkreditt website.

<sup>3</sup> A two year lag between implementation of a new building code and the buildings built under that code must be taken into account, hence all residential buildings 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>. This baseline as defined by Multiconsult can therefore also be used by other participants in the green bond market

<sup>4</sup> Given that the EPC labels are not in the public domain at the time of writing, only criteria 1 will be used until such data is made publically available. This is further detailed in Multiconsult's methodology report.

Bond committee will oversee the process for evaluation and selection of eligible loans according to the methodology defined by the consultant. SpareBank 1 Boligkreditt will in this way gradually expand the Eligible Green Loan Portfolio.

SpareBank 1 Boligkreditt 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 in all of the alliance member banks to take care that all their activities comply with internal environmental and social standards. These banks have minimum environmental and social requirements in place for all lending. As detailed above, the member banks have signed up to work in line with the principles of the United Nations Global Compact, which means working to improve several areas of sustainability, including these three principles pertaining to the environment:

- businesses should support a precautionary approach to environmental challenges;
- undertake initiatives to promote greater environmental responsibility; and
- encourage the development and diffusion of environmentally friendly technologies.

The minimum requirements are continuously developed and renewed in their external and internal policy frameworks. These environmental and social policies can be found on the websites of the banks. The banks are however in various stages of developing the public disclosure of their policies and are also working to translate the information they disclose into English (most is in Norwegian at the end of 2017). Bank websites for sustainability for the largest alliance member banks are found here:

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

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

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

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

The green bonds themselves will be obligations of the specialised credit institution and covered bond issuer SpareBank 1 Boligkreditt, which acquires the Eligible Assets (residential mortgages) from the alliance member banks. As with all other covered bonds issued by SpareBank 1 Boligkreditt there is no direct recourse to the alliance member banks, in accordance with the covered bond legislation in Norway. The alliance banks do have certain joint contractual obligations for SpareBank 1 Boligkreditt pertaining to equity contributions and liquidity support. Individually, the banks are required to maintain certain cover pool eligible asset reserves.

## 5. Management of Proceeds

The Green Bonds proceeds will be managed by SpareBank 1 Boligkreditt in a portfolio approach.

SpareBank 1 Boligkreditt 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.

SpareBank 1 Boligkreditt intends to designate sufficient eligible loans in the Eligible Green Loan Portfolio to ensure that its outstanding balance of Eligible Green Loans always exceeds the total balance of all outstanding Green Bonds. For each new Green Bond issuance, where necessary, additional Eligible Green loans will be added to this Eligible Green Loan Portfolio to ensure the sufficient and timely allocation of the incremental net proceeds.

During the life of the Green Bonds, and upon becoming aware, if a loan ceases to fulfil the eligibility criteria, SpareBank 1 Boligkreditt will remove the loan from the Eligible Green Loan Portfolio and replace it, when necessary, for the balance as soon as reasonably practicable.

Whilst any Green Bond net proceeds remain unallocated, SpareBank 1 Boligkreditt will hold and/or invest, at its own discretion, in its liquidity portfolio in money market instruments, the balance of net proceeds not yet allocated to eligible loans.

## 6. Reporting

The Green Bond Principles require green bond issuers to provide information on the allocation of proceeds. In addition to information related to the projects to which green bond proceeds have been allocated, the Green Bond Principles recommend communicating on the expected impact of the projects.

On a best effort basis, SpareBank 1 Boligkreditt will align the reporting with the portfolio approach described in "Green Bonds - working towards a Harmonized Framework for Impact Reporting (December 2015)"<sup>5</sup>. The reporting basis for all SpareBank 1 Boligkreditt green bonds is the Eligible Green Loan Portfolio and it will be aggregated for all green bonds outstanding.

SpareBank 1 Boligkreditt intends to report to investors within one year from the date of a Green Bond transaction and annually thereafter, until the proceeds have been fully allocated.

### ***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 or the amount or the percentage of new financing and refinancing

### ***Impact Reporting***

SpareBank 1 Boligkreditt has appointed a specialised green real estate consultant Multiconsult ASA to develop the methodology for the estimation and calculation of the impacts. The impact report will provide, on a portfolio basis, on indicators such as:

- estimated ex-ante annual energy consumption in KWh/m<sup>2</sup> or energy savings in MWh
- estimated annual GHG emissions reduced/avoided in tons of CO<sub>2</sub> equivalent

Both allocation report and impact report will be made available via the SpareBank 1 Boligkreditt website.

## **7. External review**

### ***Second party opinion***

SpareBank 1 Boligkreditt will obtain an independent verification assessment from DNV-GL to confirm the validity of the SpareBank 1 Boligkreditt Green Bond Framework. The independent verification report will be published on the SpareBank 1 Boligkreditt website. For each Green Bond issuance under the SpareBank 1 Boligkreditt Green Bond Framework, SpareBank 1 Boligkreditt will obtain an independent verification assessment from an external verifier (DNV-GL or any subsequent external verifier). SpareBank 1 Boligkreditt will similarly make the document accessible on the SpareBank 1 Boligkreditt website.

### ***Verification***

SpareBank 1 Boligkreditt 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 (Deloitte or any subsequent external auditor).

SpareBank 1 Boligkreditt has the intention to obtain accreditation of the CBI certificate for the envisaged green bond.

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<sup>5</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/20151202-0530-FINALRevised-Proposal2.pdf>

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