



Sparebanken
Vest

Sparebanken Vest Green Bond Framework June 2019



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Sparebanken Vest Green Bond Framework

1. Sparebanken Vest Sustainability Strategy

Sparebanken Vest was created by and for the people of Western Norway in 1823. Our heart beats for Western Norway, for the people who live there and the work they do. Our strong ties to the region are the driving force behind our strong involvement in society, an involvement that goes beyond our social mission as a regional bank. We are currently the third biggest savings bank in Norway, with more than 250,000 retail and corporate customers. Throughout our history, we have endeavoured to ensure that the local community has the best conditions for growth and that it develops in a sustainable way.

‘Everything we do, we do to make life in Western Norway even better.’

Sparebanken Vest’s vision is to help to make life in Western Norway even better. We want to set an example for how businesses can contribute to social development in Western Norway, and we recognise that our task as part of society goes further than the statutory requirements, we are subject to. Sparebanken Vest will contribute through our own processes, the projects and customers we choose to finance and how we conduct ourselves in relation to customers, society and the environment.

Sparebanken Vest is owned 75% by the local society and therefore view the bank’s business concept as two-fold, with the emphasis on banking operations, but also taking account of the bank’s social involvement. The vision underlines that through professional banking operations the bank will be a driving force in development of the social and commercial life of Western Norway. As an independent organization, Sparebanken Vest believes it has an important role to play in enriching society. The bank seeks to support and promote all positive elements involved in the development of Western Norway. Sparebanken Vest will distribute grants to the local societies in the market area totalling more than MNOK 470 in 2019, of which MNOK 200 will be earmarked for sustainable projects.

The World Business Council for Sustainable Development describes corporate social responsibility (CSR) as follows: ‘Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.’

As a company, Sparebanken Vest need to see the connection between our business activities, society and the environment. Sparebanken Vest’s most important contribution is to develop a responsible, profitable business through banking operations and to help businesses and individuals to gain access to resources, make use of technology and create jobs, revenues and prosperity. To ensure that this is economically sustainable, however, Sparebanken Vest also need to take social and environmental considerations into account. These considerations are defined as ethical and sustainability considerations and criteria, particularly within the topics of ethics, the environment, ownership structures, labour rights and financial crime.

Rationale for issuing green bonds

In alignment with the broader Sparebanken Vest sustainability strategy, Sparebanken Vest is considering to issue Green Bonds to finance or refinance 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. By issuing Green Bonds, Sparebanken Vest intends to contribute to the development of the green bond market while highlighting its Sustainability Strategy to capital markets participants. In addition, Green Bonds will help to diversify Sparebanken Vest’s investor base and to broaden dialogue to existing investors.

2. Sparebanken Vest Green Bond Framework

In line with Sparebanken Vest's Sustainability Strategy and commitment to sustainable development, Sparebanken Vest 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 Sparebanken Vest can issue under this Green Bond Framework:

- a) **"Green Covered Bonds"** issued by Sparebanken Vest 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 Senior Bonds"** issued by Sparebanken Vest. 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, Sparebanken Vest 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

Sparebanken Vest 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), loans to Renewable Energy.

While Sparebanken Vest 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:

Green Covered Bonds

ICMA GBP/SBP category	Eligible category description	UN SDGs	Core UN SDGs Target	EU Environmental Objective
Green Buildings	<ul style="list-style-type: none"> Loans to finance or refinance new or existing energy efficient residential buildings in Norway 	  	<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 and industrial processes, with all countries taking action in accordance with their respective capabilities 	<ul style="list-style-type: none"> EU Environmental Objective (1): Climate Change Mitigation 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

Green Senior Bonds

ICMA GBP/SBP category	Eligible category description	UN SDGs ¹	Core UN SDGs Target	EU Taxonomy Environmental Objective ²
Green Buildings	<ul style="list-style-type: none"> Loans to finance or refinance new or existing energy efficient <i>commercial</i> buildings in Norway Loans to finance or refinance new or existing energy efficient <i>residential</i> buildings in Norway 	  	<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 and industrial processes, with all countries taking action in accordance with their respective capabilities 	<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	<ul style="list-style-type: none"> Generation, appliances, acquisition and products of renewable energy; as well as the connection of renewable energy production units to the electricity grid and the transportation through the network 	 	<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

Sparebanken Vest 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 Sparebanken Vest’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

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 ans 99): http://www.europarl.europa.eu/doceo/document/TA-8-2019-0325_EN.html

³ The report will be published on the Sparebanken Vest website.

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:** *New Buildings belonging to the top 15% most energy-efficient buildings of the local building stock and refurbished buildings which achieved energy savings of at least 30% in comparison to the baseline performance of the building before the renovation*

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.

- b. **Commercial Green Buildings:** *New Buildings belonging to the top 15% most energy-efficient buildings of the local building stock and refurbished buildings which achieved energy savings of at least 30% in comparison to the baseline performance of the building before the renovation*

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 TEK07, TEK10, TEK17 and later building codes. Hence, built after 2010⁷.

⁴https://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>

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.

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:

Hydro power in Norway, limited direct emissions of less than 100g CO₂e / KWh:

- Run-of-river, small scale hydro power plants (maximum generation capacity < 20MW)
- Refurbishment or refinancing of existing medium or large hydropower plants

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 the Head of Sustainability and senior officials within Sparebanken Vest’s credit, funding, risk management and corporate lending teams. The committee will manage any future updates to the Framework, including expansions to the list of Eligible Categories and changes in market developments (such as the introduction on 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, Sparebanken Vest 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 Sparebanken Vest’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, Sparebanken Vest only finances 100% renewable energy production. Our power portfolio comprises small hydropower plants, regional hydropower plants and a number of district heating plants. We assess, on an ongoing basis, expanding the portfolio with other renewable energy sources, e.g. wind power. As regards

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.

All customers must comply with the laws and agreements that apply in Norway and the countries where the customers are present. In accordance with the bank's credit strategy, Sparebanken Vest shall not grant financing to customers/businesses that:

- Sparebanken Vest have reason to believe do not comply with the bank's Code of Ethics or in other ways conduct their business in conflict with the generally accepted view of what constitutes ethical conduct
- have acted dishonestly in relation to the bank or are known to have acted dishonestly in relation to other parties, or if the company or its owners are known to have been involved in criminal activity
- operate in conflict with laws, regulations and official environmental requirements, or without the necessary approvals from the authorities
- included on Norges Bank's list of excluded companies⁸

Sparebanken Vest 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 Sparebanken Vest 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. Sparebanken Vest's environmental and social policies can be found on <https://www.spv.no/english/about-sparebanken-vest/csr>

5. Management of Proceeds

The Green Bonds proceeds will be managed by Sparebanken Vest in a portfolio approach.

Sparebanken Vest 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.

Sparebanken Vest 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 Sparebanken Vest's Eligible Green Loan Portfolio to the extent required.

While any Green Bond net proceeds remain unallocated, Sparebanken Vest 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

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

Sparebanken Vest 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 Sparebanken Vest's green bonds and other potential green funding outstanding.

Sparebanken Vest intends to align the reporting with the portfolio approach described in "Green Bonds- working towards a Harmonised Framework for Impact Reporting (June 2019)"⁹ .

⁸ <https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies/>

⁹ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Handbook-Harmonized-Framework-for-Impact-Reporting-WEB-100619.pdf>

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:

- A 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 in tons of CO₂ equivalent▪ For other categories Sparebanken Vest 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

* Sparebanken Vest has appointed a specialised green real estate and renewable consultant Multiconsult to develop the methodology for the estimation and calculation of the impacts. The impact report will be provided on a portfolio basis.

Both allocation report and impact report will be made available via the Sparebanken Vest's website. Sparebanken Vest intends to align its Green Bond Reporting with the recommendation of the Technical Expert Group (TEG) report on the EU Green Bond Standards, published in June 2019¹¹ and any further updates, on a best efforts basis.

7. External review

Second party opinion

Sparebanken Vest will obtain an independent verification assessment to confirm the validity of the Sparebanken Vest Green Bond Framework. The independent verification report will be published on the Sparebanken Vest website.

Verification

Sparebanken Vest 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).

¹¹ https://ec.europa.eu/info/files/190618-sustainable-finance-teg-report-green-bond-standard_en

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