

Sparebanken Sør Boligkreditt AS

PRE-ISSUANCE VERIFICATION LETTER

LOW CARBON BUILDINGS CRITERIA OF THE CLIMATE BONDS STANDARD

Type of engagement: Assurance Engagement

Period engagement was carried out: August 16, 2019–August 26, 2019

Approved verifier: Sustainalytics

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Scope and Objectives

Sparebanken Sør Boligkreditt AS has engaged Sustainalytics to review and verify that its green covered bond meets the requirements under the Low Carbon Buildings criteria of the Climate Bonds Standard.

Sparebanken Sør is a Norwegian savings bank, providing banking and brokerage activities in the counties of Aust-Agder, Vest-Agder, Telemark, and Rogaland. One of the oldest banks in Norway, with history dating back to 1824, Sparebanken Sør is the country's fifth-largest bank. Sparebanken Sør Boligkreditt AS, a wholly-owned subsidiary, is a mortgage company licensed to issue covered bonds. The Bank's corporate policy regarding corporate social responsibility, approved in 2017, lays out five key principles: good corporate governance, climate and the environment, social responsibility, process and organization, and reporting.¹

Sparebanken Sør Boligkreditt AS intends to issue a green covered bond to finance and/or refinance a loan portfolio of new and existing mortgages for energy efficient residential buildings in Norway ("Residential Green Buildings"). The mortgages within the loan portfolio to be financed and/or refinanced by proceeds from the green covered bond correspond to residential buildings in Norway meeting one of the following requirements:

1. New or existing Norwegian apartments that comply with the Norwegian building codes of 2010 (TEK10) or 2017 (TEK17).
2. New or existing Norwegian other residential dwellings that comply with the Norwegian building codes of 2007 (TEK07), 2010 (TEK10) or 2017 (TEK17).
3. Existing Norwegian residential buildings, built before 2009, with EPC-labels A, B and C.

As part of its engagement process with Sustainalytics, Sparebanken Sør Boligkreditt AS provided a third-party report produced by Norwegian consultancy Multiconsult ASA, which developed a methodology to identify the most energy efficient residential buildings in Norway according to the above requirements. Having reviewed the report, Sustainalytics views Multiconsult's third party expertise in the development of the eligibility criteria and project selection process positively.

Currently, the above-mentioned criteria define residential mortgages constituting the top 12% in terms of energy performance in the Norwegian residential market. As such, Sparebanken Sør Boligkreditt AS's criteria are well within the top 15% required by the Climate Bond Standard, as well as compliant with CBI's proxy methodology regarding Location Specific Criteria for Residential Buildings in Norway.

Climate Bonds Standards Criteria

Pre-issuance requirements under Climate Bond Standards Version 2.1²:

- Low Carbon Buildings criteria

¹ <https://www.sor.no/felles/om-sparebanken-sor/samfunnsansvar/konsernpolicy-samfunnsansvar/>

² Climate Bonds Standard, version 2.1 available at: https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2_1%20-%20January_2017.pdf

- Residential Property Climate Bond³

Issuing Entity's Responsibility

Sparebanken Sør was responsible for providing information and documents relating to:

- The details concerning the selection process for the Residential Green Buildings
- The details of the Residential Green Buildings
- The management systems for internal processes and controls for Residential Green Buildings, including: tracking of proceeds, managing unallocated proceeds and Earmarking funds to Nominated Projects
- The details of commitments for reporting prior to issuance, including: investment areas, management of unallocated proceeds and frequency of periodic Assurance Engagements

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Sparebanken Sør's green covered bond, issued to finance and/or refinance eligible mortgages for energy efficient residential properties, and provided an independent opinion informing Sparebanken Sør as to the conformance of the green bond with the Pre-Issuance Requirements and the Low Carbon Building criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by Sparebanken Sør. Sustainalytics is not responsible if any aspect of the Nominated Projects referred to in this opinion including estimates, findings, opinions, or conclusions are incorrect. Thus, Sustainalytics shall not be held liable if any of the information or data provided by Sparebanken Sør's management used as a basis for this assessment were not correct or complete.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

Verifier's Responsibility

The work undertaken as part of this engagement included conversations with relevant Sparebanken Sør employees and review of relevant documentation to confirm the green bond's conformance with the Climate Bonds Certification Pre-Issuance Requirements, which include:

- Conformance of Sparebanken Sør's green covered bond with the Climate Bonds Standard Version 2.1
- Conformance with the Technical Criteria on Low Carbon Buildings
- Conformance with the Internal Processes & Controls requirements
- Conformance with Reporting Prior to Issuance requirements

³Residential Property Climate Bonds certification methodology available at:
<https://www.climatebonds.net/files/files/Residential%20Property%20Criteria.pdf>

Basis of the Opinion

Sustainalytics conducted the verification in accordance with the Climate Bond Standard Version 2.1 and the International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Information.

Sustainalytics planned and performed the verification by obtaining evidence and other information and explanations that Sustainalytics considers necessary to give reasonable assurance that the Sparebanken Sør green covered bond meets the requirements of the Climate Bond Standard. Upon reviewing evidence and other information, Sustainalytics is of the opinion that Sparebanken Sør Boligkreditt AS will ensure compliance with Climate Bond Standard requirements.

Conclusion

Based on the limited assurance procedures conducted, nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, Sparebanken Sør Boligkreditt AS's green covered bond is not in conformance with the Low Carbon Buildings criteria of the Climate Bond Standard Pre-Issuance Requirements.

Schedule 1A: Pre-Issuance General Requirements

<p>Selection of Nominated Projects and Assets:</p>	<p>1.1 Statement on the environmental objectives of the bond</p> <p>1.2 Confirmation that Nominated Projects and Assets meet the Climate Bonds criteria</p> <p>1.3 Document a list of Nominated Projects and Assets</p> <p>1.4 Confirmation that Nominated Projects and Assets will not be nominated to other Climate Bonds</p> <p>1.5 Confirmation that Net Proceeds of the Green Bond shall not be greater than the value of the Nominated Projects and Assets</p>
<p>Internal Processes and Controls</p>	<p>2.1.1 Tracking of proceeds</p> <p>2.1.2 Managing of unallocated proceeds</p> <p>2.1.3 Earmarking funds to Nominated Projects and Assets</p>
<p>Reporting Prior to Issuance</p>	<p>3.1.1 Investment area of Nominated Projects and Assets</p> <p>3.1.2 Intended types of temporary investments for the management of unallocated proceeds</p> <p>3.1.3 Approach of Verifier</p> <p>3.1.4 Whether periodic Assurance Engagement will be undertaken, and the expected frequency of any periodic Assurance Engagements</p>

Schedule 1B: Conformance to the Pre-Issuance Requirements

Procedure Performed	Factual Findings	Error or Exceptions Identified
Verification of requirements specified under Selection of Nominated Projects and Assets	<p>1.1 The objective of the bond is to primarily use proceeds to finance and/or refinance a loan portfolio of new and existing mortgages for energy efficiency residential buildings in Norway.</p> <p>1.2 The Nominated Projects and Assets meet the Low Carbon Buildings criteria of the Climate Bond Standard.</p> <p>1.3 The Nominated Projects and Assets include:</p> <ul style="list-style-type: none"> • Loan portfolio of new and existing mortgages for energy efficient residential buildings in Norway. <p>1.4 Sparebanken Sør Boligkreditt AS's management confirms that the projects shall not be nominated to other Climate Bonds.</p> <p>1.5 Sparebanken Sør Boligkreditt AS's management confirms that the net proceeds of the bond shall not be greater than the value of the projects.</p>	None
Verification of requirements specified under Internal Processes and Controls	<p>2.1.1 Sparebanken Sør Boligkreditt AS's management confirms that proceeds will be segregated and tracked in a systematic manner and will be exclusively used to finance Nominated Projects.</p> <p>2.1.2 Sparebanken Sør Boligkreditt AS's management confirms that unallocated proceeds will be held or invested in money market instruments through its liquidity portfolio.</p> <p>2.1.3 Sparebanken Sør Boligkreditt AS's management has confirmed that the proceeds from the bond will be managed using a portfolio approach.</p>	None
Verification of requirements specified under Reporting Prior to Issuance	<p>3.1.1 Sparebanken Sør Boligkreditt AS's management confirms that the proceeds of the transaction will primarily be used to finance and/or refinance a loan portfolio of new and existing mortgages for energy efficient residential buildings in Norway.</p> <p>3.1.2 Sparebanken Sør Boligkreditt AS's management confirms that unallocated proceeds shall be held or invested in money market instruments through its liquidity portfolio.</p> <p>3.1.3 The bond's offer letter confirms that an approved third party verifier has been appointed to confirm the bond's conformance with pre-issuance requirements of the Low Carbon Buildings criteria of the Climate Bonds Standard.</p>	None

	<p>3.1.4 The bond's offer letter confirms that an approved third party verifier will conduct post-issuance assurance exercise within a year's time to reaffirm conformance of the bond with the Low Carbon Buildings criteria of the Climate Bonds Standard.</p>	
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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017". In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit www.sustainalytics.com

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