



SpareBank 1 Næringskreditt

Green Bond Framework

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# SpareBank 1 Næringskreditt Green bond Framework

## 1 SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt (“Spacom” or the “company”) is a covered bond issuer and a sister company to SpareBank 1 Boligkreditt (SpaBol). Spacom's cover pool contains mortgages on commercial properties (offices, hotels, logistical facilities and retail) as well as some types of residential mortgages (multi-family). The two companies share one management team but have different boards of directors. SpareBank 1 Næringskreditt is, like SpareBank 1 Boligkreditt, owned by banks in the SpareBank 1 Alliance. Several of the banks transfer commercial mortgages to the company. The legislation under which Spacom is registered and licensed as a covered bond issuer, limits the loan to value for commercial mortgages transferred to the cover pool to 60 per cent.

## 2 SpareBank 1 Sustainability Strategy

### SpareBank 1 Alliance

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 development company (SpareBank 1 Utvikling DA) which organises several joint activities of the alliance member banks. Overall, SpareBank 1 is Norway's second largest banking group with approximately NOK 900 bn in total lending as of 2Q 2019 (approx. EUR 95 billion at an FX rate NOK/EUR of 9.5).

Overview of the SpareBank 1 Alliance:

SpareBank 1 SMN	SpareBank 1 SR-BANK	SpareBank 1 Nord-Norge	SpareBank 1 Østlandet	Cooperating SpareBank 1 banks <sup>1</sup>
	<b>SpareBank 1 Gruppen AS</b> (owned by each bank or group of banks listed above with 19.5% each, except at Østlandet 12.4% and minority owner LO with 9.6%)		<b>SpareBank 1 Banksamarbeidet DA</b> (owned by each bank or group of banks listed above 18% each as well as SpareBank 1 Gruppen AS with 10%)	
SpareBank 1 Boligkreditt (Issuer), SpareBank 1 Næringskreditt (commercial covered bond pool), SpareBank 1 Credit Cards, SpareBank 1 Markets, SpareBank 1 Payments, BN Bank	Fremtind Forsikring (insurance), Odin Forvaltning (asset management), SpareBank 1 Factoring, SpareBank 1 Portfolio, SpareBank 1 Spleis (mobile pay), Connecto (collection agency), LOFavør (product program)		Eiendomsmegler 1 Norge AS (real estate agency), SpareBank 1 Customer Service Center, SpareBank 1 VPS (securities processing)	

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. Sparebank 1 is also a member of the Norway 203040 alliance, which is a business-led climate initiative with the mission of accelerating the transition to a low-carbon economy and to support the Norwegian government in delivering on its national climate commitments by 2030.

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. Most of the banks have the ambition to use corporate social responsibility as a competitive advantage through integrating CSR into all corporate governance and incorporating CSR in all governing documents, relevant policies and guidelines. Several banks are reporting on their performance in the field of CSR and sustainability under the globally recognised standard, the Global Reporting Initiative (GRI), in accordance with the Core option.
- 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 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 environmental impact. The EU recognized 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. For detail, please see the sustainability sections of the major banks which transfer commercial real estate loans to Næringskreditt:
  - SpareBank 1 NÆRINGSKREDITT: <https://www.sparebank1.no/en/Næringskreditt/about-us/sustainability.html>
  - SpareBank 1 Østlandet: [https://www.sparebank1.no/en/ostlandet/about-us/sustainability/sustainability-in-everything-we-do.html#par\\_title](https://www.sparebank1.no/en/ostlandet/about-us/sustainability/sustainability-in-everything-we-do.html#par_title)
  - SpareBank 1 Nord-Norge: <https://www.sparebank1.no/en/nord-norge/about-us/about-us/sustainability.html>

### 3 SpareBank 1 Næringskreditt Green Bond Framework

The ICMA Green Bond Principles (GBP) 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<sup>1</sup>, SpareBank 1 Næringskreditt'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.

A dedicated Green Bond Committee has been established to create this Green Bond Framework, manage any future updates to the Framework, including expansions to the list of Eligible Categories, and oversee its implementation.

The committee consists of the Chief Financial Officers of SpareBank 1 NÆRINGSKREDITT, SpareBank 1 Nord-Norge and SpareBank 1 Østlandet, who are also serving as directors on the company's board of directors, as well as the CEO, CFO and COO of the company.

### 4 Use of Proceeds

SpareBank 1 Næringskreditt intends to allocate the net proceeds of the Green covered bond to an Eligible Green Loan Portfolio of new and existing loans to the following Use of Proceeds categories. The Eligible Green Loans are to be funded in whole or in part by an allocation of the covered bond proceeds. As a matter of practical procedure, it is expected that all Eligible Green Loans are identified prior to an issuance of Green covered bonds.

ICMA GBP/SBP category	Eligible category description	UN SDGs	Core UN SDGs Target
Green Buildings	<ul style="list-style-type: none"> <li>• Loans or investments to finance new or existing commercial buildings in Norway</li> </ul>	  	<ul style="list-style-type: none"> <li>• <b>7.3</b> By 2030, double the global rate of improvement in energy efficiency</li> <li>• <b>9.4</b> 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</li> </ul>

<sup>1</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

### Green commercial buildings

SpareBank Næringskreditt has relied on the support of an external green real estate consultant Multiconsult to define the associated eligibility criteria below. Eligible Commercial Green Buildings must meet one or more of the following eligibility criteria:

1. New or existing commercial buildings belonging to top 15% low carbon buildings in Norway, in accordance with the methodology defined by Multiconsult (and included in the proposed EU taxonomy for buildings) in green buildings<sup>2,3</sup>

The methodology, which is defined by Multiconsult as a green bond standard for commercial real estate in Norway can also be used by other participants in the green bond market, notably includes the following criteria for Norwegian commercial buildings:

- 1) New or existing Norwegian **hotel and restaurant buildings** that comply with the Norwegian building code TEK07, TEK10, TEK17 and later building codes. A conservative time lag between implementation of a new building code and the hotel and restaurant buildings built under that code is taken into account in Multiconsult's technical report, hence all commercial buildings finished in 2011 and later (3 year lag) are all eligible under this criterion.
  - 2) New or existing Norwegian **office, retail and industrial buildings** and warehouses that comply with the Norwegian building TEK07, TEK10, TEK17 and later building codes. A conservative time lag between implementation of a new building code and the office, retail and industrial buildings built under that code is taken into account in Multiconsult's technical report, hence all commercial buildings finished in 2010 and later (2 year lag) are all eligible under this criterion.
  - 3) New or existing Norwegian multi-family apartment buildings that comply with the Norwegian building codes TEK 10 and TEK 17 and later building codes. These loans are made to a registered private housing cooperatives or similarly organized ownership of multi-apartment buildings and are serviced by the service charge levied on the individual owners or occupants of the apartments. A conservative time lag between implementation of a new building code and the office, retail and industrial buildings built under that code is taken into account in Multiconsult's technical report, hence all commercial buildings finished in 2012 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
    - 1) LEED "Gold", BREEAM or BREEAM-NOR "Excellent", or equivalent or higher level of certification
    - 2) Nordic Swan Ecolabel
  3. Refurbished Commercial buildings in Norway with an improved energy efficiency of 30%:
    - 1) 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
    - 2) Refurbished Norwegian commercial buildings, including loans to finance multifamily apartment buildings, with at least a 30% improvement in calculated energy efficiency, kWh/m<sup>2</sup> delivered energy to the building, compared to the calculated energy efficiency based on building code in the year of construction

## 5 Process for Project Evaluation and Selection (criteria)

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<sup>2</sup> This complies with the criteria set by the Climate Bonds Initiative Standard and Guidance on Low Carbon Commercial Buildings, <https://www.climatebonds.net/standard/buildings/commercial>

<sup>3</sup> [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190618-sustainable-finance-teg-report-taxonomy\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-taxonomy_en.pdf)

The Green bond Committee will oversee the Green bond process, including the evaluation of Eligible Green Loans. As a matter of practical process, buildings, which meet the criteria outlined above, will be automatically identified and selected as part of the Eligible Green Loan portfolio.

## **6 Management of Proceeds**

The Green bond proceeds will be managed by SpareBank 1 Næringskreditt in a portfolio approach.

SpareBank 1 Næringskreditt 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 Næringskreditt intends to designate sufficient Eligible Green Loans in the Eligible Green Loan Portfolio to provide that its outstanding balance of Eligible Green Loans exceeds the total balance of all outstanding Green bonds. Where necessary, additional Eligible Green Loans will be added to this Eligible Green Loan Portfolio pool to provide for sufficient and timely allocation of the incremental net proceeds. During the life of the Green bonds, if a loan ceases to fulfil the eligibility criteria, SpareBank 1 Næringskreditt will use its best efforts to remove the loan from the Eligible Green Loan Portfolio and replace it when necessary for the balance as soon as reasonably practicable.

Sparebank 1 NÆRINGSKREDITT will identify, track and keep a register of new and existing Eligible Green Loans and companies.

Whilst any Green bond net proceeds remain unallocated, SpareBank 1 Næringskreditt 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 the Eligible Green Loan Portfolio. In practice though, an amount of Eligible Green Loans sufficient to represent more than 100 per cent of bond proceeds will be identified prior to an issuance of Green covered bonds.

## **7 Reporting**

SpareBank 1 Næringskreditt will make and keep readily available reporting on the allocation of net proceeds to the Eligible Green Loan Portfolio after a year from the issuance of the applicable Green bonds, to be renewed annually until full allocation of the Green bond net proceeds. Reports will be made available on the company's website: spacom.no

SpareBank 1 Næringskreditt intends to report the allocation of the Use of Proceeds to the Eligible Green Loan Portfolio at least at the category level and on an aggregated basis for all of the Issuer's Green bonds and other potential green funding outstanding.

### **7.1 Allocation Reporting**

The allocation report will provide, on a portfolio basis:

- The total amount of proceeds allocated to the Eligible Green Loan Portfolio
- The number and total amount of Green Eligible Loans
- The balance of unallocated proceeds

### **7.2 Impact Reporting**

- 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

- The above metrics will be compared to a benchmark of average building category energy use and emissions

## **8 Assurance**

### **8.1 Second party opinion**

SpareBank 1 Næringskreditt will obtain an independent verification assessment from Sustainalytics to confirm the validity of the SpareBank 1 Næringskreditt Green bond Framework prior to using it for the basis of a bond issuance. The independent verification report will be published on the SpareBank 1 Næringskreditt website.

### **8.2 Verification**

SpareBank 1 Næringskreditt will request on an annual basis, starting one year after issuance and until full allocation, a limited assurance report of the allocation of the bond proceeds to eligible assets, provided by its external auditor

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