

Green Bond Framework

2019



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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 (SpareBank 1 Banksamarbeidet DA) which organises several joint activities of the alliance member banks. The member banks jointly own the covered bond issuer SpareBank 1 Boligkreditt directly, as well as other units. Please see a schematic illustration of the SpareBank 1 Alliance below:

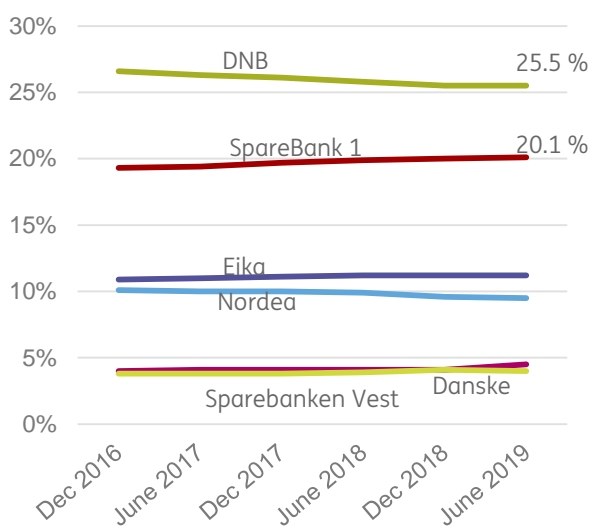
Overview of the SpareBank 1 Alliance

SpareBank 1 SMN	SpareBank 1 SR-BANK	SpareBank 1 Nord-Norge	SpareBank 1 Østlandet	Cooperating SpareBank 1 banks ¹
Subsidiaries directly owned by the banks (varying equity ownership):		SpareBank 1 Gruppen AS (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%)		SpareBank 1 Banksamarbeidet DA (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 Naeringskreditt (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)

Overall, SpareBank 1 is Norway's second largest banking group with approximately NOK 1,100bn of total assets as of year-end 2018. 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 191bn as of June 2019 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.

¹These are the smaller banks in the Alliance, a total of 10 institutions

SpareBank 1 Alliance and competitors mortgage
lending market shares in Norway



The SpareBank 1 banks continuously seek to improve efforts and activities which contribute to increased sustainability. All the major member alliance banks (approximately 75 to 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. The banks produce energy and climate reporting, which gives a detailed account of the CO₂ equivalent emissions for each organisation. Most of this reporting already follows (or implementation is underway) 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 organisations².
- 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 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.



²The environmental impact reporting may be found on each bank's website, either under a Sustainability segment of the website and/or embedded in the annual financial report.

- The lending activities of the SpareBank 1 banks are limited to Norway and approximately nearly 70% 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. Some Alliance banks have stated that they go beyond this and are seeking to advice corporate clients to reduce emissions. 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, such as coal related companies.
- The largest SpareBank 1 Alliance banks have detailed their sustainability efforts and initiatives under the following parts of their webpages
 - **SpareBank 1 SNN:**
<https://www.sparebank1.no/en/nord-norge/about-us/about-us/sustainability.html>
 - **SpareBank 1 SMN:**
<https://www.sparebank1.no/en/smn/about-us/sustainability.html>
 - **SpareBank 1 Østlandet:**
<https://www.sparebank1.no/en/ostlandet/about-us/sustainability.html>
 - **SpareBank 1 SR:**
<https://www.sparebank1.no/en/sr-bank/about-us/Sustainability.html>

In alignment with the SpareBank 1 sustainability strategy, SpareBank 1 Boligkreditt is issuing Green Covered Bonds to finance or refinance mortgages for energy efficient residential properties with lower energy needs and consumption. Some of the SpareBank 1 banks are since 2018 offering 'environmental mortgages' to the public at advantageous terms for certain effort such as refurbishments to increase energy efficiency. SpareBank 1 Boligkreditt hopes to contribute to additionally via its green bond offerings, where green mortgage products are facilitated in part through green covered bond funding. This, as well as SpareBank 1 Boligkreditt's broader commitment to sustainability and the green bond market, encompasses the main rationale for issuing green covered bonds.



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 2018, 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 below³. The below eligibility criteria comply with the recommendation of the Technical Expert Group (TEG) report on the EU Taxonomy published at the end of June 2019, which establishes a system to classify environmentally-sustainable activities by setting out metrics and thresholds.

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 – completed from 2012 (apartment buildings) or 2009 (other dwellings)⁴**
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	Eligible when EPC label is A, B or C	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 completed before 2012 (apartment buildings) or 2009 (other dwellings)**
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%**
One of two criteria below must be met:
 - i. At least two steps of improvement in energy label compared
 - ii. At least a 30% improvement in energy efficiency

³The report is published on the SpareBank 1 Boligkreditt website.
⁴A 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 2012 (apartment buildings) or 2009 (other dwellings) 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

Sustainable Development Goals and EU Taxonomy alignment

SpareBank 1 Boligkreditt aims to contribute to the development of the green bond market and to the growth of impact investing linked to the UN Sustainable Development Goals (UN SDGs), since Eligible Green Project Categories under this Green Bond Framework are in line with certain UN SDGs. In addition, SpareBank 1 Boligkreditt is aligned with the EU Environmental objectives as presented below.

ICMA GBP/SBP category	Eligible category description	UN SDGs ⁵	Core UN SDGs Target	EU Environmental Objective ⁶
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 	<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
			<ul style="list-style-type: none"> 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 	
			<ul style="list-style-type: none"> 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 	

⁵In 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/>

⁶In 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

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 changes in market developments (such as the introduction on the EU Green Bond Standards) on a best effort basis, and oversee its implementation.

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), will be added to the green portfolio. The Green Bond committee will oversee future changes in the process for evaluation and selection of eligible loans according to the methodology defined by the consultant. SpareBank 1 Boligkreditt will 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*
- *Encourage the development and diffusion of environmentally friendly technologies*



The environmental and social lending policies of the banks 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 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 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.

Typically, at the time of issuance, the green mortgage loans, as defined, are already transferred to the cover pool in anticipation of the green covered bond issuance. The Issuer will in other words always seek to have pool of green loans larger than the combined outstanding volume of green covered bonds at all times and at times just prior to a new issuance, including the planned issue. However, a possibility exists that net proceeds could remain unallocated for short periods of time. SpareBank 1 Boligkreditt will in such a case 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 (June 2019)"⁷. 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 if there are changes to report on. In practice, reporting will be refreshed at each new planned green bond issuance, and in addition every time assumptions and calculations change. The reporting will cover the efficacy in terms of energy use and Co2 emissions for the whole portfolio at the time of reporting compared to a benchmark(s).

SpareBank 1 Boligkreditt issues quarterly statistical reporting on the whole cover pool and these reports, located under the area "Cover Pool Statistics" will set out a table presenting the size and composition of the Eligible Green Loan Portfolio.

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*
- *The geographical distribution of the assets (at country level)*

⁷ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Handbook-Harmonized-Framework-for-Impact-Reporting-WEB-100619.pdf>

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 - SpareBank 1 Boligkreditt has appointed a specialised green real estate consultant Multiconsult ASA to develop the methodology⁸ for the estimation and calculation of the impacts. The impact report may provide the following metrics and indicators, on a portfolio basis:
 - *Ex-ante annual energy consumption in KWh/m2 or energy savings in MWh*
 - *Annual GHG emissions reduced or avoided in tons of CO2 equivalent. Baselines for comparison may be:*
 - *The average CO2 emission of a reference portfolio, the Norwegian residential building stock (to calculate reduced emissions for existing and new buildings)*
 - *The average CO2 emission of Norwegian residential buildings according to the TEK building code at the time of construction of the building (to calculate reduced emissions for refurbished buildings or new buildings that outperform the building code)*
 - *The average CO2 emission according to the most recent TEK building code (to calculate avoided emissions for existing and new buildings)*
 - *Breakdown of green loans per EPC (energy) label*
 - *Percentage of eligible loans for green buildings that are more energy efficient than the TEK building codes required at the time of construction*
 - *Percentage of new versus refurbished buildings*

Both allocation report and impact report are made available via the SpareBank 1 Boligkreditt website, under the area "Green Bonds". SpareBank 1 Boligkreditt 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 2019 and any further updates, on a best efforts basis.

⁸The methodology is aligned with the International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting (2015) and the Nordic Public Sector Issuers Position Paper on Green Bonds Impact Reporting (2017). The current methodology of Multiconsult ASA uses a reference portfolio.

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

7. External review

Second Party Opinion

SpareBank 1 Boligkreditt has obtained an independent verification to confirm the validity of the SpareBank 1 Boligkreditt Green Bond Framework and will obtain Climate Bond Initiative (CBI) certification for each Green Bond issued. The independent verification report and CBI certification will be published 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 (the external auditor as of 2019 is PwC, while for previous years it was Deloitte). The auditor will issue this assurance based upon reviewing the overall loan portfolio and verifying the existence of the green mortgage loans therein according to the criteria. A first assurance report was published on the SpareBank 1 Boligkreditt website pertaining to the 31.12.2018 balance sheet date.



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