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Second Party Opinion

Spareskillingsbanken Green Bond Framework

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Location: Norway | **Sector:** Banks

Alignment With Principles

Aligned = ✔ Conceptually aligned = ○ Not aligned = ✖

✔ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

See Alignment Assessment for more detail.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Strengths

The framework's green buildings and renewable energy project categories support the transition to a low-carbon society. They are also relevant to the bank's loan book, which consists mainly of mortgage loans to individuals.

Weaknesses

Eligibility requirements for green buildings do not exceed the regulatory minimum, except for new construction or buildings constructed after 2021. Buildings to be financed must be energy efficient compared with the current stock of buildings in Norway. However, the eligibility criteria fall short of representing significant steps toward a low carbon, climate resilient future.

Areas to watch

Exposure to physical climate risks will not necessarily be addressed for eligible projects. The bank does not currently screen mortgage loans for physical climate risks. However, it aims to implement a physical assessment for all real estate loans once the new Eiendomsverdi module, expected in the near term, becomes available. Flooding is expected to be the main climate-related weather hazard the real estate loan portfolio is exposed to.

Spareskillingsbanken is in the early stage of assessing its financed emissions, which we view as a highly material factor for banks. The bank is currently calculating its scope 3 exposure and has informed us it will set targets by the end of 2024.

Eligible Green Projects Assessment Summary

Eligible projects under Spareskillingsbanken's green bond framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Green buildings	**Light green**
Loans to finance the ownership or renovation of residential, commercial, and public buildings	

Renewable energy	**Dark green**
Loans to finance the acquisition and installation of solar photovoltaic (PV) panels on residential or commercial buildings	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Spareskillingsbanken is a Norway-based savings bank, operating in the Kristiansand region. It serves the region's retail market and small and midsize enterprises. Its loan portfolio totaled approximately Norwegian krone (NOK) 9 billion (about €0.79 billion) as of Dec. 31, 2022. Most of the loans are to personal customers (76 % of the net lending book), followed by 11% to real estate sales and operations and approximately 5% to financial institutions. Spareskillingsbanken is a member of the De Samarbeidende Sparebanker collaboration in Norway.

Material Sustainability Factors

Climate transition risk

Banks are highly exposed to climate transition risk through their financing of economic activities, which affect the environment. Their direct environmental impact is small compared with financed emissions and stems mainly from power consumption. Generally, policies and rules to reduce emissions could raise credit, legal, and reputation risks for banks. Positively, financing the climate transition offers a growth avenue for banks through lending and other capital market activities. In the European context, climate and environmental regulations are ambitious, and there is a strong push toward integrating sustainability considerations into the regulation of banks and financial markets.

Physical climate risk

Physical climate risks will affect many economic activities because climate change increases the frequency and severity of extreme weather events. Banks finance a wide array of business sectors exposed to physical climate risks. However, although climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographic location of the activities and assets they finance. Similarly, banks’ physical footprint (such as branches) may also be exposed to physical risks, which may disrupt their ability to serve clients in the event of a natural catastrophe. Key risks in Norway relate to an increase in extreme precipitation and flooding.

Access and affordability

Banks' large impact on society stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payment systems. Ensuring affordable access to financial services, especially to the most vulnerable members of the population, remains a challenge for the banking industry. Structural issues such as poverty, the informal economy, and lack of financial literacy partly limit access to financial services. However, banks have many opportunities to support economic development through financial inclusion, including by using new technologies.

Issuer And Context Analysis

The project categories in the financing framework--green buildings and renewable energy--aim to address climate transition risk, which we consider to be a key sustainability factor for Spareskillingsbanken. Green buildings and renewable energy are exposed to the impacts of climate change, therefore physical climate risk is a relevant risk in the context of the framework.

Spareskillingsbanken's sustainability strategy is in a nascent phase. In 2021, the bank published its sustainability strategy, which has three focus areas:

- To make sustainability an integrated and natural part of the bank's credit processes through monitoring of climate risk;
- To incorporate sustainability as an integral part of corporate governance; and
- To contribute to sustainable local communities.

That same year, the bank established an interdisciplinary sustainability group based on Finance Norway's "Roadmap for green competitiveness in the financial industry." This group has worked on proposals for how Spareskillingsbanken can develop its role as a responsible business partner and contributor to Norway's transition to a more sustainable society.

Spareskillingsbanken is in the early stages of assessing financed emissions. The bank is currently calculating its scope 3 emissions to define targets for its private and corporate customer portfolios by year-end 2024. The bank is encouraging customers to reduce greenhouse gas emissions by offering green loans to those that have an energy-efficient home (that is, with an energy class of A or B), since mortgage loans make up the vast majority of the bank's lending portfolio. The bank first offered such green loans to private customers in 2021 and this portfolio increased 36% to NOK170 million (about €14.85 million) in 2023 from NOK120 million (€10.48 million) in 2022. For its own operations, the bank aims to achieve net zero emissions by 2050, with an intermediate target of reducing scope 1 and 2 greenhouse gas emissions by 50% in 2030 compared to the 2020 level. To achieve net zero emissions for its own operations, the issuer plans to optimize its energy use and is considering purchasing guarantees of origin for its electricity consumption. However, its disclosure of greenhouse gas emissions through reporting under the Task Force on Climate-Related Financial Disclosures 2022 includes emissions data only up to 2020.

Climate risk assessments currently apply to a small portion of the bank's loan book, and this risk is not part of the screening process for most financed loans under the framework. Currently, Spareskillingsbanken only uses climate risk assessments for corporate customers. However, the company has the goal of including more relevant sustainability considerations in the screening process for its real estate loan book. Corporate customers are assessed using parameters covering relevant environmental and climate data points, and then classified in different risk categories. The bank has informed us it is planning to assess the physical risks of its real estate loan book once the new Eiendomsverdi module, expected in the near term, becomes available, and incorporate the impact on nature, as well as circularity considerations into its screening process; the timelines and scope are so far unclear to us.

Alignment Assessment

This section provides an analysis of the framework's alignment to Green Bond principles.

Alignment With Principles

Aligned = ✔ Conceptually aligned = O Not aligned = ✖

✔ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✔ Use of proceeds

The issuer commits to allocating the net proceeds issued under the framework exclusively to eligible green projects. Please see the section Analysis of Eligible Projects for more information on our analysis of the environmental benefits of the expected use of proceeds.

Spareskillingsbanken will allocate an amount equal to the net proceeds from instruments issued under its green bond framework to finance a loan portfolio to promote the transition to a low-carbon economy and climate resilient development. The project categories are green buildings and renewable energy. The former distinguishes between buildings constructed before 2021 and those built after 2021 and includes renovated buildings. The green buildings project category excludes residential buildings used for leisure, such as cabins..

✔ Process for project evaluation and selection

Spareskillingsbanken has established a Green Bond Committee (GBC) consisting of members of the bank's executive management. The GBC is responsible for setting the criteria for eligible project and selecting eligible projects. Some environmental and social risks are mitigated by Norwegian regulations, such as the Nature Diversity Act, which regulates biodiversity, endangered species, and protected areas; and the Planning and Building Act, which aims to promote sustainable development and includes requirements on the protection of valuable land. The bank aims to include the assessment of physical risks, the impact on nature, and circularity considerations in the future, although the timeline and scope are not clear. All lending must always go through standard, applicable credit approval processes and, for corporate customers, credit exceeding NOK100,000 must also be screened for environmental, social, and governance risks. . The issuer states that green bonds will not be used to finance loans to customers linked to fossil energy extraction and/or generation; production, research, or development in the weapons and defense systems sectors; potentially environmentally negative resource extraction; gambling; pornography; or tobacco.

✔ Management of proceeds

Spareskillingsbanken commits to allocating the net proceeds from instruments issued under its green bond framework to finance a green loan portfolio. The allocation of the net proceeds will be tracked to ensure that they exclusively finance eligible projects. Furthermore, under the framework, the bank will ensure that the value of the green loan portfolio exceeds, at all times, the value of outstanding green bonds. If green loans fail to meet the eligibility criteria, the GBC will replace them with another eligible green loan. Unallocated proceeds will be managed in line with the standard liquidity management policy of Spareskillingsbanken's treasury department.

✔ Reporting

The issuer commits to reporting annually the allocation of proceeds and impact of the green financing instrument issued under the framework and to publish the report on its website as long as these instruments are outstanding. This report will include the aggregate size of the identified green loan portfolio, the nominal amount of green bonds outstanding, the share of green loans financed by green bonds, and the amount of net proceeds awaiting allocation. In addition, the issuer will report the actual environmental impact of projects as long as the instrument is outstanding. We view as positive that the issuer will align its impact reporting with ICMA's Harmonized Framework for Impact Reporting, and that the allocation report will provide transparency on assumptions and calculation methods.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Spareskillingsbanken expects to allocate most of proceeds to green buildings (mainly residential buildings) and a small portion to renewable energy. The issuer expects 100% of the proceeds of issuance under the framework to be allocated to refinancing projects.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Overall Shades of Green assessment

We assess the framework as Light green, based on the Shades of Green assigned to the project categories detailed below, together with the expected allocation of proceeds being allocated mainly to green buildings, and consideration of environmental ambitions outlined in the framework.

Green project categories

Green buildings

Assessment	Description
Light green	Loans to finance the ownership or renovation of residential, commercial, and public buildings that meet at least one of the criteria listed below: **Residential buildings, excluding buildings for leisure (cabins or similar):** 1) Buildings constructed in 2021 or later Primary energy demand (PED) is 10% lower than the threshold for the nearly zero-energy building requirements in national measures. PED is the calculated amount of energy needed to meet the energy demand associated with the typical uses of a building, expressed in kilowatt hours per square meter (kWh/m2) per year and based on the relevant national calculation methodology, and as displayed on the Energy Performance Certificate (EPC). 2) Buildings built before 2021 EPC of class A, or alternatively, buildings within the top 15% of the national stock in terms of PED, defined as those built according to the Norwegian building codes of 2010 (TEK10) or 2017 (TEK17). If a new national definition of “top 15%” is developed, TEK10 and TEK17 will be replaced with this. Buildings built before 2012 must have an EPC with class B or better. To ensure alignment with TEK10, we use a conservative two-year time lag and include buildings constructed from 2012 onward. 3) Renovated buildings Major renovations leading to a reduction of PED of at least 30%. For the full building to qualify after renovation, it should meet the criteria under No. 1 or No. 2 above. **Commercial and public buildings:**

1) BREEAM-NOR or BREEAM In-use certificate notation as "Excellent" or better.
2) A Nordic Swan Ecolabel ("Svanemerket") building certificate.
3) Renovated buildings achieving a reduction in PED of at least 30%. The initial PED and estimated improvement are based on an energy audit conducted by an independent expert. The 30 % improvement results from the actual reduction of PED, achieved through a series of measures within a maximum of three years.

Analytical considerations

- For all buildings, mitigating the exposure to physical climate risks is crucial to improving climate resilience. For existing buildings, high energy performance is important to the transition to a low carbon economy, while for new construction there is the additional need to reduce emissions associated with building materials. Renovation of existing properties can contribute to significant emissions savings. In our view, these are key topics to address from a low-carbon perspective.
- Most of the proceeds will finance residential buildings. Although some buildings will be significantly more energy efficient than required by the regulations, the Light green shade reflects that the framework allows for financing of buildings built between 2012 and 2020 with no additional energy efficiency requirements compared to the regulation. Indeed, the criteria for existing buildings include mostly buildings only in line with regulations applicable at the time of construction (2012 to 2020), although those built before 2012 need an EPC of at least class B. These criteria correspond to a proxy currently being used to define the top 15% of the building stock, which is yet to be officially determined. The draft of the official top 15% considered at a national level shows more ambitiousness and a stricter screening process than the current proxy. We acknowledge that the proxy used is based on the best information currently available, and we note as positive that the issuer commits to replacing its definition of the top 15% with the new national definition when it is developed.
- Although the issuer does not expect to finance commercial buildings in the short term, these are included in the framework as eligible projects. We view such buildings as Light green, since there are no specific requirements for energy use, physical risks, or embodied emissions, and all climate and environmental considerations will depend on the certification process. The robustness of the certification will depend on the version used and the points taken in the certification process. We note that BREEAM-NOR In-use contributes to incorporating sustainability in the design phase of a building while BREEAN-In use can contribute to better energy-use management. However, the point-based system does not guarantee a low carbon building and has no requirements for energy efficiency other than that energy use shall be monitored.
- In the transition to a low-carbon society, it is vital to renovate and improve existing properties. Major renovations of buildings leading to primary energy savings of at least 30% show a solid ambition and represent a Medium green element in the project category.
- Given the significant climate impacts associated with new construction projects, particularly in terms of embodied emissions, it is crucial for newer buildings, both commercial and residential, to be constructed with the ambition of minimizing emissions from the materials. For new buildings, the framework lacks criteria to address emissions related to building materials, which in the Nordic context typically contribute to half of a building's lifecycle emissions. The issuer has stated that it aims to start including the impact on nature and circularity considerations into the screening process in the future. However, the scope and timeline of such considerations are not defined.
- Buildings with fossil fuel heating will not be financed. It is positive that cabins are excluded, since energy requirements for cabins do not apply to most of these structures and they may be using fossil fuels. Furthermore, the development of cabins is exposed to biodiversity risks and indirect emissions from building supporting infrastructure.
- There are no specific criteria related to mitigation of physical climate risks of the financed assets. In general, buildings are highly exposed to physical climate risks, and although building regulations to some extent consider such risks, there is no guarantee that such risks are properly addressed. An increase in precipitation and flooding are key risks in the Norwegian context. The issuer has stated that it aims to implement a physical assessment all mortgage loans; however, the scope and timeline are as yet undefined.

Renewable energy	
Assessment	**Description**
Dark green	Loans to finance the acquisition and installation of solar PV panels on residential or commercial buildings.

Analytical considerations

- Renewable energy, provided the impacts on the local environment are sufficiently mitigated, is a key element in global efforts to limit global warming to well below 2 degrees Celsius. We consider the renewable energy project category, where investments will go toward financing the acquisition and installation of solar PV panels on residential and commercial buildings, to be Dark green.
- Although solar projects are generally low carbon, there may be local environmental impacts (such as, on biodiversity and the landscape) and lifecycle risks in the supply chain (such as from material sourcing, manufacturing, transportation, construction, and end of life processing). We view as positive that the issuer does not expect to install solar parks on greenfield land. In our view, this significantly limits the risk of harming biodiversity. However, there is no specified lifecycle emissions threshold.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

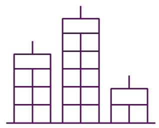
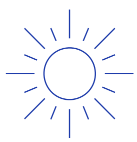
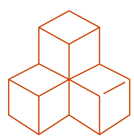
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs	
Green buildings	 **11. Sustainable cities and communities***	 **13. Climate action**
Renewable energy	 **7. Affordable and clean energy***	 **9. Industry, innovation and infrastructure***

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- S&P Global Ratings ESG Materiality Maps, July 20, 2022

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