# Sparebanken Sogn og Fjordane

## Green Bond Second Opinion

August 15, 2019

**Sparebanken Sogn og Fjordane (SSF) is a medium sized regional savings bank.** SSF maintains a network of branches in its home region in Western Norway. SSF offers traditional banking services to retail and corporate clients. For several years SSF has had a focus on sustainability. The bank sees it as its long term responsibility to reduce its own emissions and to also let sustainability considerations inform its lending activities.

**Proceeds from green bonds issued under this framework will be allocated to renewable energy projects in the form of hydropower, wind- and solar power.** The first green bond will refinance a portfolio of existing small hydropower plants. These plants are located in SSF's home region and are of the run-of-river type. According to the issuer, the region's topography is not suitable for the construction of dams and it was likely that also future hydropower projects will be run-of-river type, even though the framework does not exclude dams.

**SSF has sound policies and procedures in place that support this framework.** The bank aims to promote clients with sustainable business models and is willing to deny loan applications if the environmental profile is deemed negative. The bank maintains a good overview of its hydropower exposure by regular site visits and good knowledge of its home region. The bank has taken measures to reduce its own emissions, e.g. by traveling less, electrifying its vehicle fleet and pursuing accreditation under the Miljøfyrtårn environmental management scheme. SSF assesses the environmental and climate profile of each corporate client. The Green Bond Committee will remove projects from green bond financing should controversies around single projects arise. The issuer will provide annual reporting to investors on a portfolio basis

Based on an assessment of the framework's alignment with the Green Bond Principles, the project categories and SSF's governance, SSF's green bond framework receives the overall **CICERO Dark Green** shading and a governance score of **Good**. The governance score could be strengthened by quantified targets for lending to green projects, a systematic approach to resiliency as well as supply chain and life cycle considerations when financing new projects. Especially regarding potential future financing of windpower projects, adding formal environmental expertise to the banks staff would be a further safeguard. As loans were used to finance entire projects including access roads, investors should be aware that these are included in the refinancing.

### SHADES OF GREEN

Based on our review, we rate Sparebanken Sogn og Fjordane's green bond framework **CICERO Dark Green.**

Included in the overall shading is an assessment of the governance structure of the green bond framework. CICERO Shades of Green finds the governance procedures in Sparebanken Sogn og Fjordane's framework to be **Good**.


### GREEN BOND PRINCIPLES

Based on this review, this Framework is found in alignment with the Green Bond principles.

# Contents

# 1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated June 2019**.** This second opinion remains relevant to all green financing issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

### Expressing concerns with 'shades of green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

| CICERO Shades of Green | Examples |
|---|---|
| **Dark green** is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated. | Wind energy projects with a strong governance structure that integrates environmental concerns |
| **Medium green** is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered. | Bridging technologies such as plug-in hybrid buses |
| **Light green** is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them. | Efficiency investments for fossil fuel technologies where clean alternatives are not available |
| **Brown** is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future. | New infrastructure for coal |

Sound governance and transparency processes facilitate delivery of clients' climate and environmental ambitions laid out in their frameworks. Hence, the governance aspects are carefully considered and reflected in the overall shading of the green bond framework. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent.

# 2 Brief description of Sparebanken Sogn og Fjordane's green financing framework and related policies

Sparebanken Sogn og Fjordane («SSF» or «the issuer») is among the 10 largest savings banks in Norway and the largest savings bank in its home province of Sogn and Fjordane. The bank has 270 employees in 13 branch offices across its regional market. The headquarters is located in the city of Førde. Three quarters of SSF's clients are retail customers, while corporates and public sector clients make up the remaining share.

## Environmental Strategies and Policies

For several years the issuer has included sustainability considerations in its day-to-day operations as well as in its lending. Regarding its own operation, SSF raises awareness among employees regarding the environmental footprint of procurements and travel. According to the annual report, efforts such as increased use of videoconferencing have contributed to a reduction in overall travel. SSF reports emissions from purchased electricity (scope 2) in accordance with the Greenhouse Gas Protocol[1]. Emissions reporting is part of "Miljøfyrtårn", a Norwegian certification system for environmental management. The application for full accreditation to this certification system is ongoing. The issuer buys quotas to offset the emissions from its fleet of vehicles. The bank is in the process to electrify the fleet and has bought several electric vehicles in this context. The bank does not report direct emissions from its own operations (scope 1).

Regarding its lending SSF has provided loans to a large share of the small-scale hydropower market in the region and other renewable energy projects, e.g. in the maritime sector. There are currently no quantified targets for the bank's green lending or outright rewards for loan customers deemed green, e.g. in form of lower interest rates. However, SSF reviews the climate and environmental profile of each corporate loan applicant. This review is part of the overall due diligence work. The issuer informed us that the bank may deny loans to corporate clients if their environmental and climate footprint is considered to be negative. Per its credit policy the bank cannot lend to the offshore oil- and gas industry in terms of vessels and floating structures. However, the policy does not exclude the financing of buildings rented by the oil and gas sector. Currently, the bank's exposure to the overall oil- and gas industry is limited to one case.

Lending under this framework is intended to support the UN's Sustainable Development Goals (SDG) 7 and 13.[2] Independent of the framework the bank also aims to support SDG 5, Gender Equality. To this end the bank has taken public positions in support of greater gender equality. SSF has also improved the gender balance in its management team and the board of directors, according to the issuer.

The bank does not apply the recommendations by the Task Force on Climate related Financial Disclosure and does not employ scenario analysis. However, the bank informs us that the green bond committee has started considering the TCFD recommendations and that green bond reporting is seen as a first step towards more detailed climate risk disclosure. According to the issuer, their considerations of physical risk and resiliency do not formally stretch

[1] SSF applies a grid emissions factor of 0,128 Kg $CO_2$ / KWh
[2] SDG 7 Affordable and Clean Energy; SDG 13 Climate Action

beyond what clients may have to document to regulatory authorities. However, the issuer informs us that the importance of the issue is understood and raised with clients.

## Use of proceeds

Proceeds from bonds issued under this framework can be used to finance or re-finance, in whole or in part, eligible projects within the category renewable energy. Eligible projects are a selected pool of loans which finance hydro-, solar, and wind power projects. Proceeds from the initial green bond issued under this framework will be used to refinance existing loans to regional hydropower companies. This loan portfolio consists of 63 hydropower projects with an annual generation between 0,7 and 47 GWh. All projects are of the run-of-river type and do not use dams. According to the issuer, future hydropower projects are likely to be run-of-river type as well due to the topographical conditions in the banks area of activity. The financing of large dams is unlikely, according to the issuer. However, the framework does not explicitly exclude these types of projects. According to the issuer, the bank has currently no exposure to wind- and solar power installations.

Green bonds can only be issued if the number of eligible projects exceeds the size of the planned green bond.

The framework excludes the allocation of net proceeds to fossil and nuclear based energy generation, research and production of weapons and defense material, environmentally harmful resource extraction, gambling and tobacco.

## Selection:

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Eligible loans will be added to a "green registry" by credit advisors. This also applies to existing loans that are to be refinanced. The "green registry" allows for easier tracking of the loans and the financed assets. The relevant sections of the lending policy will be highlighted to these advisors and other involved decision makers. The Green Bond Committee at SSF will regularly review the "green registry". It is the committee's responsibility to check and confirm the eligibility of each loan, and to approve the registry of selected loans. The committee will remove such loans from the registry that cease to be eligible or become highly controversial. The Green Bond Committee's review of the green registry follows the Credit Committee's review of each loan application. Considerations of the applicants' environmental and climate profile are featured in the Credit Committee's assessment, according to the issuer. The members of the Green Bond Committee are the Chief Executive Officer, the Client Executive for the renewable energy sector and the head of finance. There is no formal environmental expertise represented on the Green Bond and the Credit Committee. SSF has confirmed that decisions by the Green Bond Committee have to be taken in consensus.

The issuer informed us that none of the hydropower assets that are to be refinanced with proceeds from the first green bond have caused public protest during development, construction and operation. The loan officer in charge of the hydropower portfolio undertakes regular site visits to each of the assets.

The issuer informed us that the allocation of proceeds and the selection of projects will not be reviewed by an internal or external auditor.

## Management of proceeds

CICERO Green finds the management of proceeds of SSF to be in accordance with the Green Bond Principles.

Net proceeds from green bonds issued under this framework will be credited to a special account ("Green Account"). Green bond disbursements will not be linked to specific eligible projects, but rather to the entire portfolio of eligible projects, the "green registry". Changes to the green account will be recorded.

Temporarily unallocated proceeds will be held in ordinary bank accounts or invested in the short-term money market. Unallocated proceeds cannot be invested in instruments connected to sectors described under the exclusion criteria in the "use of proceeds" section.

## Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

The issuer will publish annual reports on its green bonds on its website from 1st May for as long as there are green bonds outstanding. Reporting will be done on a portfolio basis, as opposed to reporting on single assets. The reports will give information on the amount of green bonds issued, the shares of proceeds allocated to new projects and refinancing, the shares of proceeds allocated to the different eligible project types, the total amount of unallocated proceeds, and the installed capacity (MW) on a portfolio basis. Only such projects that were financed in full by SSF will be included in the green registry. The issuer may include other indicators and metrics in its reporting. In case several bonds are outstanding, allocations and impacts will be reported for the totality of bonds, as opposed to reporting per issued bond.

External verification of reporting or assets is not planned at this stage.

# 3 Assessment of Sparebanken Sogn og Fjordane's green bond framework and policies

The framework and procedures for SSF's green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where SSF should be aware of potential macro-level impacts of investment projects.

## Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in SSF's green bond framework, we rate the framework **CICERO Dark Green.**

## Eligible projects under Sparebanken Sogn og Fjordane's green bond framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

| Category | Eligible project types | Green Shading and some concerns |
|---|---|---|
| Renewable Energy | Hydro-, wind- and solar power projects and related infrastructure. | ✓ The initial bond will refinance a portfolio of run of river plants without dams<br>✓ Small scale hydro projects can be associated with the risks of negative local environmental and social impacts. The issuer aims to mitigate these risks by demanding adherence to requirements under the concession and by visiting each project regularly. The issuer has confirmed that they are not aware of any local opposition to any of the projects to be refinanced under the initial issuance.<br>✓ We encourage the consideration of additional resilience measures when developing new projects<br>✓ Mind impacts on biodiversity, landscapes and affected communities in all power projects, and especially regarding dams and in wind power projects |

| | |
|---|---|
| | ✓ We encourage engaging with project owners on emissions connected to procurement, suppliers and construction for new developments<br>✓ Construction or upgrading of access roads should be kept to a level that ensures the proper functioning of the project but that does not encourage increased car use by the local population. |

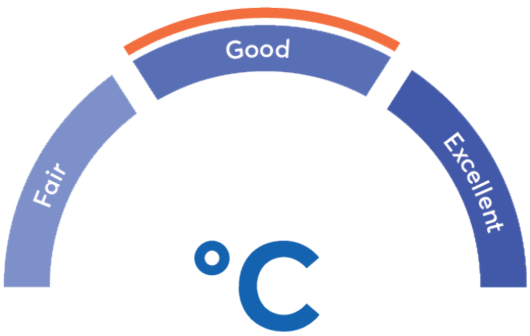
Table 1. Eligible project categories

## Governance Assessment

Four aspects are studied when assessing the Sparebanken Sogn og Fjordane's governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent.

SSF has in place relevant policies and practices that support the implementation of its green bond framework. The bank has taken measures to reduce its direct environmental and climate footprint and reports emissions under the Miljøfyrtårn scheme. The bank assesses the environmental and climate profile of corporate clients and is able to deny loans on these grounds. The bank maintains close relations to its hydropower customers. Eligibility criteria are clearly defined, and the Green Bond Committee is willing to remove controversial projects from green bond financing. The management of proceeds is in line with the Green Bond Principles. Reporting to investors will be done annually on a portfolio basis.

The overall assessment of Sparebanken Sogn og Fjordane's governance structure and processes gives it a rating of **GOOD**. The score would be strengthened by quantified targets for lending to green projects, a systematic approach to resiliency as well as supply chain and life cycle considerations when financing new projects.




## Strengths

SSF reviews the environmental and climate performance of each corporate loan applicant. The issuer also investigates efforts to improve the environmental footprint and assesses the regulatory risk a loan applicant could be exposed to. It is encouraging that SSF includes these considerations into the due diligence work. It is further noteworthy that the bank's credit committee can deny a loan application on the grounds of a negative assessment of the environmental and climate performance of an applicant.

The bank has good knowledge of the power sector in its home region. According to the issuer, the credit officer responsible for the hydropower portfolio has many decades of experience and visits each power station regularly. This enables the bank to engage with borrowers on matters such as resiliency in a changing climate. Local knowledge is also a strength for a scenario where public opposition forms against potential new projects, as seen with several onshore wind developments during 2019. It would enable the bank to engage early with stakeholders in order to then decide how to proceed.

### Weaknesses

There are no apparent weaknesses in the framework.

### Pitfalls

The loans that are to be refinanced with the first green bond issued under this framework have financed hydropower plants including access roads for construction vehicles. According to the issuer, roads were built in accordance with the concession requirements defined by the Norwegian regulator NVE. The issuer informed us that in many cases roads existed only temporarily, and that the original landscape had to be reinstated after the construction phase. In other cases, already existing paths were expanded.

In general, access roads can in some cases increase public traffic. We encourage the issuer to include such considerations for the financing of future projects, especially larger ones requiring large scale civil engineering works.

Wind power developments have been under heightened public scrutiny. We encourage the issuer to engage with potential future project developers on issues concerning stakeholder engagement. The issuer has confirmed that controversial projects will not be financed or refinanced with green bond proceeds.

SSF reserves the right to include new indicators in its impact reporting in the future. Should the bank decide to calculate avoided $CO_2$ emissions from its renewable energy portfolio, we encourage the bank to be transparent and consistent regarding the grid emissions factor used in the impact reporting and other kinds of emission reporting.

# Appendix 1:
# Referenced Documents List

| Document Number | Document Name | Description |
|---|---|---|
| 1 | Sparebanken Sogn og Fjordane Green Bond Framework | Outlining the issuers planned use of proceeds, selection process, management of proceeds, and reporting |
| 2 | Klimaregnskap 2018 - Miljøfyrtårn | Scope 2 emissions reporting under the Norwegian environmental scheme “Miljøfyrtårn” |
| 3 | Årsrapport 2018 | Annual report 2018, including sections on sustainability |
| 4 | Miljøfyrtårn sertifikat hovedkontor | Certification of SSF headquarters under the environmental management program “Miljøfyrtårn” |
| 5 | Engasjementoversikt småkraft | Overview of small hydropower portfolio |

# Appendix 2:
# About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).