°CICERO Shades of Green

Haugesund Sparebank
Green Bond Second Opinion

18 October 2022

Executive Summary

Haugesund Sparebank is a local savings bank based in the town of Haugesund in Western Norway. The bank provides financial products and services to around 26,000 private and 4,000 corporate customers and has a lending portfolio of roughly NOK 15bn comprising of consumer (65%) and corporate lending (35%). Its most significant corporate sector exposures are from the commercial real estate, construction, agriculture, and retail sectors. According to the bank, its exposure to heavy emitting sectors such as the oil & gas and process industry is limited.

Haugesund Sparebank aims to allocate all proceeds to green buildings, which is the framework's only project category. This category includes new residential buildings with energy performance that is 10% better than current building regulations. It also includes new commercial buildings, which in addition to the 10% energy performance criteria, must have an Excellent or Outstanding BREEAM-NOR certification. Existing buildings must have an energy performance certificate (EPC) A or be within the top 15% of the national building stock in terms of primary energy demand, defined as any building built from 2012 to 2020 in line with applicable regulations. Buildings built before 2012 need an EPC B. The same criteria apply for commercial buildings, which, in addition, must have an Excellent or Outstanding BREEAM-NOR certification. The green buildings project category also includes renovation projects, where the criteria is a 30% reduction in primary energy demand.

SHADES OF GREEN

°CICERO Light Green

GOVERNANCE ASSESSMENT

GREEN BOND PRINCIPLES

Based on this review, this framework is found in alignment with the principles.

We rate the framework **CICERO Light Green** and give it a governance score of **Good.** This reflects that, while new buildings financed under the framework have energy performance that is better than regulation, most proceeds will finance buildings with no additional energy efficiency requirements compared to applicable regulation at the time of construction. In respect of governance, Haugesund Sparebank has set relevant environmental goals and aims to be carbon neutral based on its scope 1 and 2 emissions by 2023. The bank aims to report on its scope 3 emissions by 2023, using a top-down portfolio approach and has recently integrated an ESG screening module into its credit process for its corporate customers. The module should help it improve its screening for physical climate and environmental risks and raise awareness about such risks among its clients.

Strengths

The framework includes renovations of existing buildings, a critical driver for transitioning to a low carbon future. From a climate perspective, a key issue regarding the real estate sector is improving the existing building stock to make it more energy efficient. This is especially important considering that most of the existing building stock has a lifespan beyond 2050.

Commercial buildings eligible for financing under this framework must have environmental certifications. It is a strength that in addition to the energy efficiency criteria of EPC B for buildings built prior to 2012, commercial buildings must also have been awarded the BREEAM-NOR Excellent or Outstanding certification. In combination, these criteria could help ensure that the framework finances buildings with energy efficiency performance levels that exceed those required by current regulations, as well as additional environmental considerations concerning embodied carbon emissions in building materials.

Pitfalls

The framework does not include specific requirements for the sustainability of the material used for new buildings. In the Nordic context, around half of buildings' lifecycle emissions originate from the materials and construction phase of the building, with the other half stemming from the use phase. In general, emissions from the construction process and site should be considered, where zero emission transport and construction solutions, voluntary environmental certifications, and limiting emissions related to the building materials are critical factors in the 2050 perspective.

The lack of additional energy use requirements exceeding regulations for existing buildings built from 2012 to 2020 is a pitfall of this framework. The construction year will alone be used to identify eligible residential buildings. Based on currently available data, these buildings have been determined to be within the top 15% of the national building stock in terms of primary energy demand. However, there are methodological challenges, as the Norwegian building regulation and system for EPC is not based on primary energy demand. The assessment of what constitutes the top 15% of the national building stock will have to be renewed once Norwegian building regulations are revised and if an official definition of the top 15% is given. Therefore, there is a risk that full reliance on such standards does not guarantee highly efficient buildings.

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1 Haugesund Sparebank’s environmental management and green bond framework

Company description

Haugesund Sparebank (“Haugesund” or the “bank/issuer”) is a local savings bank based in the town of Haugesund in Western Norway and is the only independent savings bank in its region. The bank was established in 1928 and currently employs 70 employees across 7 offices. The bank serves approximately 26 000 private and 4 000 corporate customers and has a lending portfolio of roughly NOK 15bn. The bank informs that its lending portfolio is mainly from consumer lending (65%) and corporate lending (35%). Its most significant corporate sector exposures are from the commercial real estate, construction, agriculture, and retail sectors. According to the bank, its exposure to heavy emitting sectors such as the oil & gas and process industry is limited, where only some of its small and medium sized corporate clients are supplying such industries.

The bank is part of the DSS-banks (De Samarbeidende Sparebankene), a collaboration between eight independent saving banks spread across various regions of Norway. Through the DSS-banks collaboration, Haugesund Sparebank is also a part-owner in a group of financial services companies, including securities, insurance companies, and real estate lending and brokerage companies.[1] The bank focuses on serving its local community by providing financial products and services to the local private and corporate markets.

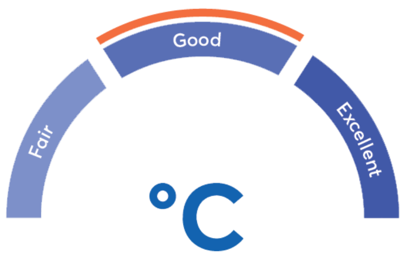
Governance assessment

Haugesund has started integrating sustainability considerations into its overall strategy and business processes, and has included climate change and other ESG risks into its corporate client onboarding and credit risk assessment processes. According to the bank, it has started engaging with commercial clients about physical climate risks and climate adaptation.

Haugesund tracks the direct emissions from its operations and seeks to reduce indirect emissions from its credit and investments portfolios. However, the bank does not currently report direct or indirect emissions but has informed that it aims to report on such emissions by 2023. Furthermore, the bank aims to report climate risks following the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations by 2023.

The bank has outlined a transparent selection process to identify assets eligible under the framework. This includes project evaluation and selection by a Sustainability Committee with representatives from the bank's sustainability, credit risk management, and treasury unit. Decisions at the sustainability committee are made by consensus.

The bank is committed to transparent reporting on allocation and impacts of the green bond proceeds at the aggregate project category level, subject to data availability. This will take the form of an annual investor letter. The bank will provide transparency on calculations, methodologies, and baselines used for impact reporting. Allocation, but not impact reporting, will be externally verified.



The overall assessment of Haugesund Sparebank’s governance structure and processes gives it a rating of **Good.**

[1] Haugesund Sparebank – About Us | Haugesund Sparebank (haugesund-sparebank.no)

Sector risk exposure

Physical climate risks. Science shows that extreme weather events are becoming more frequent and intense, that incremental climatic changes are highly likely to happen, and that their impacts are expected to grow more severe over the coming years and decades. The impacts of physical risks are uncertain in probability, magnitude and timing. Hence, through its lending portfolio, the bank could be indirectly exposed to various counterparty risks, including damage to its properties and infrastructure, which could lead to business disruptions that may impact client creditworthiness and loan valuations.

Transition risks. Similarly, transition risks are likely wide-ranging due to the bank's exposure to multiple sectors and, therefore, clients' exposure to changing regulations, technologies, and market conditions. Growing regulatory and supervisory expectations for greater disclosure and oversight of climate financial risks and civil society focus on the finance sector's contribution to climate change create regulatory, liability, and reputational risks. The bank may also be exposed to systemic risks from the mispricing of climate-exposed assets.

Environmental risks. As with climate change, nature and biodiversity loss can create physical risks due to loss of critical ecosystem services which can contribute to operational and supply chain disruptions (e.g., via landslides, reduced crop yields, pandemics), while also reducing resilience to physical climate risks. Transition-related environmental risks arise from government measures, technological changes, litigation, and consumer preferences that may change due to efforts to reduce or reverse nature loss. As with climate risk, nature risks contribute to systemic risk and financial system instability.

Environmental strategies and policies

Haugesund Sparebank has a sustainability strategy covering environmental and social aspects.[2] The bank is a signatory to the UN Sustainable Development Goals (SDGs). It has identified specific SDGs it deems to be areas where it can positively contribute, including SDGs 5, 8, 11, and 13. According to the bank's sustainability strategy, it contributes specifically to climate action (SDG 13) by focusing on developing green banking products, advisory services, and climate risk assessments for its customers.

The sustainability strategy includes three key focus areas: internal operations, customers and suppliers, and the local community. It further outlines key objectives for each area of focus, including:

- To reduce the bank's operational carbon footprint, aiming to reach carbon neutrality by 2023 based on the GHG (Greenhouse gas) protocol for scopes 1 and 2.
- Strengthen its employee's overall knowledge and competencies around sustainability.
- Provide its customers with sustainable products and services
- Carry out ESG assessments for new credit issuance to corporate customers with a credit exposure above a set threshold, as well as measuring and tracking such developments annually
- Set clear requirements for its suppliers and partners.

The bank tracks the direct emissions from its operations and seeks to reduce indirect emissions from its credit and investment portfolios. The bank does, however, not currently report these tracked direct or indirect emissions from its operations and portfolio. According to the bank, it aims to introduce reporting on emissions from its portfolio

[2] Sustainability strategy (Norwegian) | Haugesund Sparebank (Haugesund-sparebank.no)

(scope 3) in its upcoming annual report for 2022. The bank will use approximate numbers based on the business segments of its portfolios. Going forward, the bank will set targets for its scope 3 emission and activities.

The bank states that it aims to promote green loan products where climate risk is part of its ESG analysis, which is mandatory for corporate clients with a total outstanding credit exceeding NOK 5 million[3]. The ESG analysis is valid for one year and seeks to map out credit risks related to transitional risks, physical climate change, environmental concerns, and social risks. It also includes specific questions for the real estate sector and projects. However, it should be noted that the ESG screening process only applies corporate clients surpassing the abovementioned lending threshold. Furthermore, the screening process does not guarantee that sufficient adaptive measures have been or will be implemented, as the bank mainly relies on the client's documentation in the screening process. Therefore, it is unclear how the issuer will verify that clients have implemented such measures or if this could be a potential reason to exclude the particular project/asset from financing.

Haugesund Sparebank has since 2009 been certified under the banking and financial criteria set forth by the Eco-Lighthouse certification (Miljøfyrtårn), which includes general and sector-specific criteria related to waste management, energy use, transportation, purchasing, and work environment.

Furthermore, the bank aims to commit to UNEP FI's Principles for Responsible Banking[4], and intends to publish the required audited self-assessment. It should be noted that this initiative does not currently have a set timeline.

Green bond framework

Based on this review, this framework is found to be in alignment with the Green Bond Principles. For details on the issuer's framework, please refer to the green bond framework dated October 2022.

Use of proceeds

For a description of the framework's use of proceeds criteria, and an assessment of the categories' environmental impacts and risks, please refer to section 2.

Selection

Haugesund Sparebank has established an internal sustainability committee, which will be responsible for the framework, the established green loan criteria, and the evaluation and selection of eligible loans to be financed under the framework. The committee has representatives from the sustainability, credit risk management, and treasury units in Haugesund Sparebank. In addition to these representatives, other internal resources with specific expertise may be invited when deemed necessary. All decisions at the committee are made by consensus.

Any lending activity must go through the regular applicable credit approval process, and borrowers must comply with all applicable laws, regulations, and practices. For a loan to be included in the green loan portfolio and to receive financing under this framework, the loan must meet the eligibility criteria outlined in table 2 for the green building project category. Business units from the retail and corporate banking segments are authorised to nominate loans for inclusion in the green loan portfolio. The committee will keep a green loan register of the identified eligible green loans under the portfolio. Furthermore, the committee holds the right to exclude, at their discretion, any green loans already funded by green bonds. If the committee evaluates an existing green loan as part of the green loan portfolio to no longer meet the established criteria, it will be removed from the portfolio altogether. All decisions made by the committee will be documented and filed. The committee will oversee any potential updates to the framework in the future, and the committee is set to meet regularly several times per year.

[3] The bank did not inform which share of its corporate clients have borrowed less than the NOK 5 million thresholds and, therefore, not covered by the ESG screening.
[4] United Nations Environment Programme Finance Initiative | UNEP FI (unepfi.org)

Management of proceeds

An amount equal to the net proceeds from green bonds issuance will be allocated to financing and refinancing green loans under the green loan portfolio.

The bank's treasury department will ensure that the value of the green loan portfolio at all times exceeds the total nominal amount of green bonds outstanding. Unallocated proceeds will be held and managed according to the bank's regular liquidity management policy. Exclusion criteria listed under the use of proceeds are also applied to the temporary holding of unallocated proceeds.

Reporting

The bank will publicly publish an annual green bond report on its website to enable investors and stakeholders to follow issuances and the development and impact of the projects. The report will include an allocation report and an impact report, where the allocation report will be externally verified, and the impact report will be based on a self-assessment (not externally verified).

The allocation report will include various dimensions of information, including:

- Size of the identified green loan portfolio and each green loan category.
- Nominal amount of green bonds outstanding.
- Share of the green loan portfolio currently financed by green bonds.
- Amount of net proceeds awaiting allocation (if any).
- Information on possible changes/developments in the EU Taxonomy regulation and delegated acts criteria or Norwegian laws and regulations that may be of relevance for our Green Loan criteria.

The impact report will, on a best effort basis, aim to disclose the environmental impact of the green loans financed under the framework following the ICMA harmonised framework for impact reporting[5]. Depending on data availability, impact reporting will be aggregated for each green loan category and calculated on a best intention basis, where the bank may need to rely on external parties to assist with impact calculation and analysis.

The impact assessment may be based on the listed metrics below.

Category	**Examples of impact indicators**
Green Buildings	▪ Estimated annual energy consumption (kWh/m2) compared to baseline. ▪ Annual GHG emissions avoided (tCO_2e) compared to baseline[6].

Table 1: Example of impact indicators to be used in impact reporting

[5] ICMA Handbook: Harmonised framework for impact reporting – June 2022 | ICMA (icmagroup.org)
[6] The bank informs that when comparing the CO_2 emissions from the eligible green loan portfolio with the portfolio of standard buildings, the calculation will apply the grid factor recommended in the Nordic Position Paper on Green Bonds Impact Reporting, clause 22, page 20: Position Paper on Green Bonds Impact Reporting Nordic Public Sector Issuers | (kuntarahoitus.fi)

2 Assessment of Haugesund Sparebank's green bond framework

The eligible projects under Haugesund Sparebank's green bond framework are shaded based on their environmental impacts and risks, based on the "Shades of Green" methodology.

Shading of eligible projects under Haugesund Sparebank's green bond framework

- The net proceeds of the green bonds issued will be used to finance or refinance, in part or in full, a portfolio of green loans deemed eligible with the bank's criteria for green buildings. Such real estate assets that meet the criteria will be eligible for a loan financed with the green funds raised under this framework.
- The issuer intends to allocate all proceeds from the first issuance to refinancing commercial buildings (one-third), and residential buildings (two-thirds)
- Green bonds net proceeds will not be allocated to assets which are linked to fossil energy generation, or nuclear energy generation, research and/or development of weapons or defense, potentially environmentally harmful resource extraction, gambling, pornography or tobacco, nor other activities in violation of the bank's established sector guidance. Cabins and other holiday homes are also excluded from financing under the framework

Category	Eligible project types	Green Shading and considerations
Green Buildings	Loans financing the acquisition, ownership, construction, and renovation of residential, commercial, and public buildings meeting the following criteria: **<u>Buildings built in 2021 or later</u>** ▪ Buildings with an energy consumption that is 10% lower than national minimum requirements (TEK17)[7] and, for commercial buildings only, a BREEAM-NOR certificate notation as "Excellent" or "Outstanding".	**Light Green** ✓Whilst some buildings will be more energy efficient than regulations applicable at the time of construction, the Light Green shading reflects that the framework also allows for financing of buildings built between 2012-2020 with no additional energy efficiency requirements. ✓In the Nordic context, around half of the lifecycle emissions from buildings are expected to originate from the building materials and the construction phase of the building. The other half stems from emissions produced during the use phase of the building. The stated BREEAM-NOR Excellent certification for commercial buildings may partly address such issues for the commercial building segment. ✓Renovation of existing buildings is key to the transition to a low-carbon future, as renovation ha a considerably lower carbon footprint than the construction of new buildings. The 30%

[7] In accordance with the EU Delegated Acts, buildings built from the 1st January 2021 should meet the criterion that the Primary Energy Demand of the buildings is at least 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures. In Norway, a definition for what constitutes an 'NZEB' has not yet been implemented.

Buildings built before 2021 ▪ Energy Performance Certificate A, or alternatively, buildings within the top 15% of the national or regional stock in terms of primary energy demand, defined as; – buildings built according to Norwegian building codes of 2010 (TEK10) or 2017 (TEK17) (whereas to ensure TEK10-alignment, we use a conservative 2-year time lag and include buildings built from 2012 and onwards, for hotels and restaurants we use a 3-year time lag); or – for buildings built prior to 2012, Energy Performance Certificate B. ▪ In addition, commercial buildings to have a BREEAM-NOR certificate notation as "Excellent" or "Outstanding". **Renovated buildings** Costs related to renovations leading to a reduction in primary energy demand of at least 30%. ▪ For the full building to qualify after renovation, it should be expected to meet the criteria above for buildings built either before or after 2021. • For avoidance of doubt: Buildings used for the exploration, extraction, refining and distribution of fossil fuels are excluded.	improvement criteria are commensurate. For renovated buildings, the issuer calculates the 30% reduction in primary energy demand compared to the level before renovation. ✓Any buildings directly heated by fossil fuels will be excluded from the green bond framework. ***Residential buildings*** ✓Requiring new residential buildings built from 2021 and onwards to be more than 10% more energy-efficient than required by regulation is positive. However, CICERO Green encourages the bank to raise its level of ambition for such buildings. ✓The framework also allows the financing of residential buildings built between 2012-2020 with no additional energy efficiency requirements. ✓Access to public transportation is not a screening criterion for receiving green loans. ✓Cabins and other holiday homes are excluded from financing under the framework ***Commercial buildings*** ✓According to the issuer, most commercial buildings eligible for renovation funding are small to mid-sized stores and warehouses (no shopping malls - based on the current commercial customer portfolio), typically seeing good results from energy efficiency investments. ✓Requiring new commercial buildings built after January 1st of 2021 to meet EPC A and additionally be certified BREEAM-NOR Outstanding or Excellent rating is positive and represents a step towards buildings with a low carbon future. It should be noted that certification standards such as BREEAM are viewed as favourable – but do not by themselves guarantee energy-efficient nor low climate impact outcomes. ✓The EPC A requirements for existing commercial buildings should ensure that their level of energy efficiency performance exceeds that required by current regulations. While the EPC B requirement for buildings built before 2012 safeguards against financing older buildings not in line with current regulations, the building year criteria allows for investments in buildings built between 2012 and 2020, without any clear additional energy performance requirements. ✓Commercial buildings used for fossil fuel exploration, extraction, refining, or distribution activities will be excluded from the framework.

Table 2. Eligible project categories

3 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated October 2022**.** This second opinion remains relevant to all green bonds and/or loans 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.

'Shades of Green' methodology

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:

	Shading	Examples
°C	**Dark Green** is allocated to projects and solutions that correspond to the long-term vision of a low-carbon and climate resilient future.	Solar power plants
°C	**Medium Green** is allocated to projects and solutions that represent significant steps towards the long-term vision but are not quite there yet.	Energy efficient buildings
°C	**Light Green** is allocated to transition activities that do not lock in emissions. These projects reduce emissions or have other environmental benefits in the near term rather than representing low carbon and climate resilient long-term solutions.	Hybrid road vehicles

The "Shades of Green" methodology considers the strengths, weaknesses and pitfalls of the project categories and their criteria. 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, including potential macro-level impacts of investment projects.

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. 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. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Assessment of alignment with Green Bond Principles

CICERO Green assesses alignment with the International Capital Markets' Association's (ICMA) Green Bond Principles. We review whether the framework is in line with the four core components of the GBP (use of proceeds, selection, management of proceeds and reporting). We assess whether project categories have clear environmental benefits with defined eligibility criteria. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed. 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 selection process. CICERO Green assesses whether net proceeds or an equivalent amount are tracked by the issuer in an appropriate manner and provides transparency on the intended types of temporary placement for unallocated proceeds. Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs.

Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	Haugesund Sparebank's Green Bond Framework	Green bond framework dated October 2022.
2	Sustainable credit process guidelines	Guidelines for sustainable credit processes, issued October 2021.
3	Credit handbook	Handbook for general credit processes and issuance at the bank,
4	Credit strategy	Credit strategy and guidelines document, including certain physical climate and transitional risk aspects.
5	Haugesund Sparebank Sustainability Strategy	Sustainability strategy, dated September 2021.
6	Guidelines for ethics and social responsibility	Guidelines document, dated January 2017

Appendix2:
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 recognised 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, the International Institute for Sustainable Development (IISD) and the School for Environment and Sustainability (SEAS) at the University of Michigan.

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- **2021 Largest External Reviewer,** Climate Bonds Initiative Awards
- **2020 External Assessment Provider Of The Year,** Environmental Finance Green Bond Awards
- **2020 Largest External Review Provider In Number Of Deals,** Climate Bonds Initiative Awards
- **2019 External Assessment Provider Of The Year,** Environmental Finance Green Bond Awards
- **2019 Largest Green Bond SPO Provider,** Climate Bonds Initiative Awards
- **2018 External Assessment Provider Of The Year,** Environmental Finance Green Bond Awards
- **2018 Largest External Reviewer,** Climate Bonds Initiative Awards
- **2017 Best External Assessment Provider,** Environmental Finance Green Bond Awards
- **2016 Most Second Opinions,** Climate Bonds Initiative Awards