



SpareBank 1 Nordmøre Green Bond Second Opinion

12 November, 2021

SpareBank 1 Nordmøre (“SB1 Nordmøre”) is a Norwegian local savings bank, mostly exposed to real estate and aquaculture. SB1 Nordmøre is present on the northwestern coast of southern Norway, from Ålesund to Smøla, and is part of the SpareBank 1 Alliance, consisting of 14 savings banks in Norway.

Under this framework, aquaculture and fisheries are expected to receive 40-50% of proceeds, green buildings 30-40% and clean transportation 5-10%. The issuer expects 80% of proceeds to be spent on new loans. Direct financing to fossil fuel solutions is excluded in all categories. Less than 5% of proceeds are expected to go to each of the categories agriculture, energy efficiency, renewable energy, waste management and circular economy. For both fisheries and aquaculture, production facilities and related infrastructure can be financed, as well as projects receiving support from the state owned enterprise ENOVA. Eligible facilities have an Aquaculture Stewardship Council (ASC) certification and use certified soy feed. The deforestation risk in the physical supply chain for salmon aquaculture has been reduced as the suppliers of soy to this industry have pledged to stop trading soy from recently deforested land. Eligible fisheries need to have a Marine Stewardship Council (MSC) certification, and fishing vessels running on electricity, hydrogen or biofuels may also received financing.

The green building category covers buildings with a wide range of environmental performances, from ambitious FutureBuilt projects to existing buildings that are only in line with applicable regulations. New residential buildings (built from 2021 onwards) need to have energy performance that is 20% better than regulation, and new commercial buildings 10% better, or have a building certification securing a similar level.

The bank does not have quantified environmental targets, but has identified its financing activities as the area where it has the largest climate impact. The bank will from 2022 integrate ESG risks in its standard loan process, including physical climate risk exposure, which will be used in the selection process under the framework. Environmental expertise has veto power in the selection process. Both the allocation of proceeds and impact reporting will be reviewed by an external auditor, while we see a risk of overestimating impacts from the green buildings category.

Based on the overall assessment of the projects that will be financed under this framework, governance and transparency considerations, SpareBank 1 Nordmøre’s green bond framework receives a **CICERO Medium Green** shading and a governance score of **Good**. To further strengthen its climate policies, we encourage SpareBank 1 Nordmøre to quantify and set targets for the indirect emissions from its financing activities, and to report according to the TCFD.

SHADES OF GREEN

Based on our review, we rate the SpareBank 1 Nordmøre’s green bond framework **CICERO Medium 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 SpareBank 1 Nordmøre’s framework to be **Good**.



GREEN BOND PRINCIPLES

Based on this review, this Framework is found to be in line with the principles.





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1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated October 2021. 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.

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



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.



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.



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.

Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available

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.



2 Brief description of SpareBank 1 Nordmøre's green bond framework and related policies

SpareBank 1 Nordmøre (SB1 Nordmøre) is a part of the SpareBank 1 Alliance that consist of 14 individual saving banks across Norway. SB1 Nordmøre has 50 000 clients and a lending portfolio of NOK 27 billion outstanding. SB1 Nordmøre is present on the northwestern coast of southern Norway, from Ålesund in the south to Smøla in the north. The bank has a goal to develop the local community and provides a wide range of financial services including loans, deposits, advisory, insurance and pension for both private and corporate clients in its region.

Environmental Strategies and Policies

The issuer has a recently established and broad sustainability policy covering both environmental and social aspects. The bank is mostly exposed to the real estate sector (in total 50% of loan portfolio), aquaculture (11%) and agriculture (5%). SB1 Nordmøre aims to have a sustainable business practice that is in line with the UN Sustainable Development Goals (SDGs). SB1 Nordmøre has prepared its emissions inventory for scope 1, 2 and partly scope 3 emissions (employee travel) using the GHG Protocol methodology. 2020 emissions were lower than 2019, but this is mainly due to the covid-19 pandemic. In addition, the bank has estimated the emissions intensity of its corporate credit portfolio.

According to the sustainability policy, the bank will integrate sustainability in all internal routines and processes. The sustainability policy points to three areas:

- SB1 Nordmøre's own organization. To reduce its direct climate footprint, the issuer, among other uses electric vehicles, reduces travel, choses sustainable materials in own renovations and aims at reducing energy use. The bank does not yet have quantified timebound targets for the emissions from its own operations but will assess this as part of its ongoing sustainability work, to be completed within half a year.
- Products and services. The bank views its financing activities as the area where it can have the largest impact on sustainability, while also representing the largest risk. The bank's dialogue with its corporate clients includes sustainability issues. The bank has identified seven sectors, where particular attention should be paid to sustainability risks when assessing lending applications. SB1 Nordmøre's standard loan process will from January 2022 integrate a module with a systematic approach to sustainability risks, including physical climate risk, which is developed by the SpareBank 1 Alliance. For funds, the bank has a goal that ESG factors should be integrated in all investment decisions. For the funds it distributes, the bank has in place ESG-ratings, and any third-party fund provider must follow SpareBank 1 ESG guidelines.
- Community involvement. The bank wants to influence clients, employees, suppliers, and partners to make more sustainable choices. SB1 Nordmøre is following up on its suppliers, based on an assessment by its parent company on where substantial sustainability risks exist. SB1 Nordmøre offers green loans, such as green mortgage loan and favorable conditions for purchasing of electric vehicles for private individuals.

SB1 Nordmøre adheres to the UN Global Compact principles, to the UN Principles for Responsible Banking and is committed to the Roadmap for Green Competitiveness in the Financial Sector from the branch organization Finance Norway.



The bank does not report according to the Task force on Climate related Financial Disclosure (TCFD) but has started work to identify and report its exposure to climate risk. Starting from the financial year 2020, the bank will report on its sustainability work in line with the Global Reporting Initiative (GRI).

Use of proceeds

The net proceeds of the green bonds issued will be used to finance or re-finance (in part or in full) assets that have been evaluated and selected by SB1 Nordmøre in accordance with its green bond framework. The issuer expects some 20% of proceeds to be re-financing of existing loans, while 80% will be new financing to new loans. An asset that meets the criteria will be eligible for a loan financed with the green funds raised under this framework. All financed projects are in Norway. Eligible project categories include a wide range of investments within renewable energy technologies, energy efficiency measures, green buildings, clean transportation, agriculture, aquaculture, fisheries as well as waste management and circular economy. Further details on the criteria and expected shares to each category are found in table 1.

The issuer aims at financing activities aligned with the EU taxonomy, both its technical criteria for substantial contribution to climate change mitigation, “Do Not Significant Harm” criteria and minimum social safeguards, for taxonomy activities where technical criteria have been determined (e.g. buildings). Assessing alignment with the EU taxonomy is not within the scope of this second opinion. For several of the activities in the framework (e.g. agriculture and aquaculture), taxonomy technical criteria do not yet exist. SB1 Nordmøre has chosen a “partial alignment approach” where it will report on EU taxonomy alignment at the time of reporting.

According to the issuer, green bonds net proceeds will not be allocated to assets for which the purpose is fossil energy production, or nuclear energy generation, weapons or defense, potentially harmful resource extraction (e.g. rare-earth elements or fossil fuels), gambling or tobacco, nor in assets that breaches SB1 Nordmøre’s responsible and ethical investment guidelines or that violates the ten principles of UN Global Compact.

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.

SB1 Nordmøre has established a Green Finance Committee (GFC) which oversees the evaluation and selection of eligible assets under the framework. Advisors have quarterly reviews to nominate potentially eligible loans. According to the issuer, screening for controversial projects, exposure to physical climate risk, lifecycle impacts and potential for lock-in effects will be assessed in the selection process, based on the bank’s integration of ESG risks in its loan process. The committee has representatives from treasury, the credit committee, group sustainability and internal audit. The committee is responsible for assessing projects and loans’ alignment with the framework and for registering the eligible assets in the bank’s internal systems. Decisions are taken by consensus, but the group sustainability representative has veto power. Decisions are documented and filed. If an asset no longer meets the eligibility criteria, the relevant asset will be excluded from the green pool.

Management of proceeds

CICERO Green finds the management of proceeds of SpareBank 1 Nordmøre to be in line with the Green Bond Principles.



Eligible assets financed under the framework will be tracked in a Green Bond Register, which will provide an overview of the net proceeds allocated to the respective assets. The value of eligible assets will at least equal the aggregate net proceeds of all outstanding SB1 Nordmøre green bonds. If outstanding net proceeds exceeds the value of eligible assets, those unallocated proceeds will be held in accordance with SB1 Nordmøre's liquidity management policy, which excludes any fossil fuel related assets such as car/oil and gas company shares. The Green Bond Register will form the basis for impact reporting, including any unallocated proceeds.

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.

SB1 Nordmøre will publish an annual green bond investor letter, including both an allocation and impact report. The allocation report will include the following:

- A list of all project categories financed, including allocated or eligible amount
- The type of financial instruments used and respective amounts
- Share of new projects and loans compared to refinancing

Anonymized information on the individual assets that are financed may be shown to investors on request, while respecting confidentiality and privacy rules.

The impact report will include the following, subject to data availability and on a best effort basis:

- Aggregate information of impact of each project category, with at least one relevant key performance indicator.
- Information on the methodologies used for calculation of impacts.
- Alignment of eligible assets with the EU taxonomy regulation. The issuer will report on the share of green financing that is aligned with the taxonomy at the time of reporting, both on a project category basis and for the total green bond disbursement.

Finally, an external auditor will review the selection process and allocation of proceeds against the green bond framework (including taxonomy alignment), as well as the impact report. The external auditor's reports will be made publicly available.



3 Assessment of SpareBank 1 Nordmøre's green bond framework and policies

The framework and procedures for SpareBank 1 Nordmøre'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 SpareBank 1 Nordmøre 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 SpareBank 1 Nordmøre's green bond framework, we rate the framework **CICERO Medium Green**.

Eligible projects under the SpareBank 1 Nordmøre'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	<i>Loans to finance or refinance acquisition, development, expansion, operation and maintenance of renewable energy power plants, plants for cogeneration of heat/cool and power from renewable energy sources, renewable energy heat recovery plants, generation and transmission of energy from renewable sources, and manufacturing of related technologies and equipment.</i> Renewable energy sources pertain to: • Solar energy: Photovoltaic energy projects (PV), Concentrated Solar Power (CSP) and solar thermal facilities • Biomass or biogas projects with: ◦ LCA emissions <100gCO₂/kWh OR ◦ ENOVA supported • Hydroelectric power projects: ◦ Small scale < 25MW capacity OR ◦ Large scale > 25MW capacity with LCA emissions <100gCO₂/kWh	Dark Green ✓ Renewable energy is an important part of the low carbon future. This is also true for Norway, which has large renewable energy electricity production, but sees increased electricity demand as various sectors transition from fossil fuels. ✓ This category is expected to receive less than 5% of green proceeds. ✓ Financed hydropower plants are expected to be small scale (less than 25MW for new plants) and could include both new plants and extension of existing ones. ✓ To limit negative impacts on local environment and biodiversity, the bank relies on national regulations and the



	AND/OR ○ Power density > 5W/m2 <i>Bioenergy from food- or feed crops will be excluded.</i> Infrastructure to support transmission and distribution of renewable energy pertains to: • Improvement of existing transmission systems to facilitate integration of renewable energy sources into the grid • Construction of new transmission systems to facilitate integration of renewable energy sources into the grid Renewable energy technology pertains to: • Development and production of renewable energy technology, including equipment and storage of energy (e.g. solar cells, wind turbines)	process to receive a license from the electricity regulator in Norway (NVE¹). ✓ According to the issuer, the construction of new renewable energy will not take place on wetlands. ✓ The financed solar energy is expected to be roof-based, which has few negative local environmental impacts. ✓ According to the issuer, biomass comes from wood chips that are biproducts from forestry activities and wood industry, from certified forests in the bank's local area. ✓ Transmission lines will include both over- and underground cables. The portfolio will include transmission lines for only small-scale production of renewable energy. No transmission lines have direct connections to electrification of oil and gas facilities.
Energy Efficiency 	<i>Loans to finance or refinance activities, projects, services, installations, equipment, and related infrastructure enabling improved energy efficiency and monitoring of energy use, or the replacement of fossil energy-use. This includes, but is not limited to:</i> Buildings: • Direct costs (e.g. materials, equipment, and labour) for installing energy efficient technologies such as heat pumps, energy management systems, new windows, energy efficient lightning, or costs associated with enabling the use of renewable energy sources • Professional technical consultations, energy audits and management services related to the improvement of energy performance of buildings Other areas: • Energy efficiency measures in agriculture, forestry, fisheries, and aquaculture leading to a transition away from, or a direct substitution of, fossil-energy use in Norway (e.g. replacing diesel generators with electricity from the grid)	Medium Green ✓ This category is expected to receive less than 5% of proceeds. ✓ According to the IEA, a 30% improvement in energy performance would be necessary to be in line with the Paris Agreement. Substitution of fossil fuel with cleaner sources of energy is also key to achieving the goals of the Paris Agreement. ✓ For buildings, direct costs are eligible if the cost is eligible for ENOVA² support. To be eligible for ENOVA support, a project must be dependent on ENOVA financing in order to be implemented. ✓ For buildings, be aware of potential rebound effects following energy efficiency improvements. ✓ For other areas, according to the issuer, the energy efficiency improvement must be 30% compared to the pre-investment situation. This sub-category, which excludes fossil fuel solutions, could include energy monitoring systems and

¹ The Norwegian Water Resources and Energy Directorate (NVE) is a directorate under the Ministry of Petroleum and Energy.

² ENOVA is a state-owned enterprise whose mandate is to support the transition to a low carbon economy, and which disburses funds from the Norwegian Climate and Energy Fund. [About Enova – Learn about our work | Enova](#)



		investments replacing the use of fossil fuels (e.g. electric tractors).
Green Buildings	<i>Loans to finance or refinance the construction or acquisition of new or existing residential buildings.</i>	Light Green
	<u>New Buildings</u> - Built from 1st January 2021 - Buildings that are 20% more energy efficient than current regulations* <u>Existing Buildings</u> - Built between 2019-2021 - Current standard (TEK17) + EPC = A - Built between 2012-2018 - Current standard (TEK10) + EPC = A or B - Built before 2012 - Relevant standard (TEK07 or earlier) + EPC = A or B or C <u>Refurbishments</u> - ENOVA supported projects and solutions - Only project cost may be included - Renovations leading to minimum 30% energy efficiency improvements, measured in specific energy (kWh/m²) compared to the calculated label based on the building code in the year of construction OR - Renovation leading to at least a two-step improvement in the EPC-label relative to the calculated label based on the building code in the year of construction. A lower threshold is set at an achieved EPC "D" - Entire building is eligible for financing <i>Loans to finance or refinance the construction or acquisition of commercial buildings.**</i> <u>New Buildings</u> - Built after 1st January 2021 - Buildings that are at least 10% more energy-efficient than the energy standard enshrined in the Norwegian building code	✓ This category is expected to receive 30-40% of proceeds. ✓ Renovation of existing buildings is key to succeed in the transition to a low carbon future. The 30% improvement criterion is aligned with science. It is also a strength that new residential buildings (2021 and onwards) need to be 20 percent more energy efficient than required by regulations, and that an EPC A is required for buildings built between 2019 and 2021. ✓ For new residential buildings, the issuer will carry out an assessment when the official Nearly Zero-Energy Building energy performance is determined in Norway. If being 10% more energy efficient than NZEB indicates a primary energy demand that is not 20% better than the current regulation (TEK17), the requirement will be set to the most ambitious of the two (in this case 20% better than TEK17). ✓ Although those criteria represent steps towards a low carbon future, the Light Green shading reflects that the framework also allows for financing of buildings with no additional energy efficiency requirements compared to regulation. ✓ The eligibility criteria are wide ranging, from high environmental credentials, such as FutureBuilt, to environmental impacts that are only in line with regulations (existing buildings aligned with building code applicable at the time of construction). ✓ In the Nordic context, some 50% of lifecycle emissions from buildings are expected to come from the operation of the building (mainly energy use), and the other half from building materials. The eligible certifications and their level partly address these issues. BREEAM-



- defining a national standard for a NZEB building
- That has received, or is expected to receive:
- A minimum certification of BREEAM or BREEAM-NOR “Excellent” with either:
 - An EPC “A”
 - Aligned with being “Paris Proof”***
- Nordic Swan Ecolabel
- Buildings receiving a “FutureBuilt” label

NOR Excellent aligned with “Paris proof” guidelines, as well as FutureBuilt projects, are expected to have significantly lower embodied emissions from construction materials than standard buildings.

✓ While the energy use criteria for newer residential buildings are relatively ambitious, those for new commercial buildings include weaker criteria. For new commercial buildings (built after 1st January 2021), the energy requirement is either a 10% better energy performance than the current regulation (TEK17), achieving an EPC A (in combination with a BREEAM Excellent certification), an Ecoswan Ecolabel (that are 10% better than regulation) or a FutureBuilt label. FutureBuilt allegedly achieves a reduction in GHG emissions from transport, energy use and material use of 50% compared to a standard building.

Existing Buildings

- Built before 1st January 2021
 - That has received or expect to receive a minimum certification of:
 - BREEAM-NOR In-Use “Very Good” and EPC = A or B
 - Nordic Swan Ecolabel
 - Buildings receiving a “FutureBuilt” label

Refurbishments

- ENOVA supported projects and solutions
 - Only project cost may be included
- Renovations leading to minimum 30% energy efficiency improvements, measured in specific energy (kWh/m²) compared to the calculated label based on the building code in the year of construction

OR

- Renovation leading to at least a two-step improvement in the EPC-label relative to the calculated label based on the building code in the year of construction. A lower threshold is set at an achieved EPC “D”
 - Entire building is eligible for financing

✓ The issuer was not able to indicate the expected distribution of proceeds between buildings with relatively high environmental performance as compared to buildings that are just “business as usual”. Given the composition of the Norwegian building stock, we would expect most financing to go to existing buildings without any additional environmental benefits.

✓ Depending on the type of building, EPC B could be given to buildings with an energy performance that is in line or even below current regulations. In addition, for old buildings with old EPC labels, the energy performance is expected to be significantly weaker than current regulations.

*In accordance with the EU Delegated Act, all buildings constructed from 1st January 2021 ought to have a primary energy demand (PED) measured in (kWh/m²/yr.), expressed through the EPC-label (Energy Performance Certificate) that is minimum 10% lower than the PED stipulated in the national definition of a NZEB building. In Norway, ENOVA is currently reviewing the current TEK17-standard, and a final definition of what constitutes a NZEB in Norway is expected to be readily available by the end of 2021. SpareBank 1 Nordmøre is committed to apply the 10% < NZEB-criterion for all buildings constructed after 1st January 2021 when the new building standard is implemented. In the meantime, new buildings being 20% more energy-efficient than the current

✓ The main types of buildings expected to be financed are residential and office buildings. Shopping centres are only eligible if they are connected to public transport, but access to public transport is not considered for other types of buildings. Cabins will not be financed.



	building standard (i.e. TEK17) will be eligible for financing under this framework. ** Buildings heated directly by fossil fuels, airport buildings, gas stations, parking lots or in general heavily emitting industrial buildings are excluded, as well as buildings directly being used for the exploration, extraction, refining and distribution of fossil fuels. Shopping centres are eligible insofar as they are accessible by means of public transportation. *** Notat_ParisProof bygg.docx byggalliansen.no: https://byggalliansen.no/wp-content/uploads/2019/04/Notat-Paris-Proof-bygg.pdf	✓ The construction year will alone be used to identify eligible residential buildings. Since there is no requirement to provide evidence that the buildings are built according to the regulations, only to document construction year, there is no guarantee that the buildings comply with the regulation. ✓ Buildings heated directly by fossil fuels, airport buildings, gas stations, parking lots or in general heavily emitting industrial buildings are excluded, as well as buildings directly being used for the exploration, extraction, refining and distribution of fossil fuels.
Clean Transportation  	<i>Loans to finance or refinance the production, establishment, acquisition, expansion, upgrades, maintenance and operation of low carbon vehicles and related infrastructures.</i> Low carbon vehicles pertain to: • Vehicles for land-based passenger or freight transportation with new electric, hydrogen-based or zero-emission technologies • Public transportation modalities (e.g. buses, trams, metro) with new electric, hydrogen-based or zero-emission technologies • Marine vehicles for passenger or freight transportation that are zero-emission (e.g. ferries, fishing vessels) Infrastructure pertains to: • Charging stations both private and public, commercial and non-commercial designated for electrical vehicles • Hydrogen fuelling stations • Non-motorized transport infrastructure (e.g. pedestrians or bicycles) • Infrastructure to support zero-emission public transport	Medium to Dark Green ✓ This category is expected to receive some 5-10% of proceeds. ✓ Electricity and hydrogen are key avenues for transitioning to a low carbon transport sector. In the maritime sector, electric technologies are still in their early stages. ✓ From a resource efficiency perspective, public transportation is far better than individual modes of transport. ✓ The issuer may finance a new hybrid service boat for aquaculture maintenance work. According to the issuer, it is currently not possible to fully electrify these operations. The hybrid boat will use electric power during maintenance, which represents a large part of the use of the boat. Fossil driving force is only used on longer transportation.
Environmentally Sustainable Management of Living Natural Resources and Land Use	<u>Agriculture:</u> <i>Loans to farms and projects/activities aligned with the relevant KSL-standards, that limit impacts on soil, marine environment and local flora and fauna, and do not deplete existing carbon pools, including:</i> • Loans to finance or refinance agricultural projects or activities where a positive climate impact has been	Medium Green ✓ This category is expected to receive less than 5% of proceeds. ✓ 8.6% of Norway's total GHG emissions are agricultural. Emissions from the sector are primarily methane from livestock production, as well as nitrous oxide from fertilizers and crop



identified based on the use of Landbrukets Klimakalkulator and accompanying advisory services

- Projects/techniques/activities aligned with “Klimasmart Landbruk”
- Loans to machinery, equipment or vehicles that run on biofuel, biogas and/or electricity, such as tractors
- Existing machinery with a contractual commitment to solely use biofuel alternatives
- Technologies/techniques enabling reduction of fertilizer use, collection of agricultural waste, improving manure handling, irrigation modernization, rangeland management
- ENOVA supported initiatives and solutions
- Projects/activities supported by Innovation Norway’s programs: “Renewable energy in agriculture” or “Support to bioeconomy projects”

Fossil fueled solutions will be excluded or carved out from the financing.

Forestry and Reforestation:

Loans to finance or refinance forest activities or projects aligned with environmentally responsible forest management, including:

- Loans to reforestation, planting of new forest
- Rehabilitation of degraded lands to facilitate reforestation

All forest land must be certified in accordance with the FSC or PEFC standard (either at individual or group level).

production. Fossil fuel machinery represents a smaller source of emissions.

- ✓ Livestock will not be financed under the framework, nor fossil fuel equipment.
- ✓ The climate calculator is developed by the Norwegian agriculture’s industry organization and identifies the largest emissions sources. Under this framework, it will be applied to crops and milk production. The related consultancy services under the initiative “Climate smart agriculture” help identify projects that reduce emissions. Eligible projects could be reduction of fertilizer use or changes in feed to reduce methane emissions from cows.
- ✓ Eligible biofuels are those defined as sustainable in the Norwegian regulations, which are aligned with the recast renewable energy directive. The contractual agreements to solely use biofuels address the risk that some machinery technically can use both fossil fuels and biofuels. FSC and PEFC are internationally recognized forestry certification schemes which are a good starting point for sustainable forestry, but planted and semi-natural forests tend to be relatively poor in biodiversity and ecological benefits compared to original forests.
- ✓ For the forestry and reforestation projects, general operational costs will be excluded, but investments could include fuel switching, replanting of forests, rehabilitation of land, new machinery on renewable fuels.

Terrestrial and
Aquatic
Biodiversity
Conservation



Aquaculture:

Loans to companies benefiting from an ASC certification on products, services, or processes, including but not limited to:

- Loans to production facilities, fish cages or supporting infrastructure for fish production
- ENOVA supported initiatives and solutions

Any fossil fuel solutions will be excluded or carved out from financing

Medium Green

- ✓ This category is expected to receive 40-50% of proceeds.
- ✓ Fish is a protein source with a low carbon footprint compared to red meat, with wild-caught fish in turn having a lower footprint than farmed salmon. Dietary changes are important to achieve the targets of the Paris Agreement. Broadly speaking, these



Any facility using non-certified soy feed will also be excluded*

**Pro Terra, RTRS, ISCC Plus or ASC Feed Standard v02*

**The certificates required in the framework and our internal processes ensures that soy used in the feed does not come from recently deforested land. In additions, the framework requires documented dialogue with soy suppliers to encourage them to reduce deforestation in all of their operations.* ✓

Fisheries:

Loans to companies benefiting from an MSC certification on products, services, or processes, including but not limited to: ✓

- Loans to production facilities, equipment and supporting infrastructure for fish-catching and production
- Fishing vessels running on 100% electricity, hydrogen or biofuels
- ENOVA supported initiatives and solutions

Any fossil fuel solutions will be excluded or carved out from financing

changes mean a move to more plant-based diets and more climate friendly animal proteins.

For aquaculture, there is a climate risk in that demand for soy used for feed may drive up deforestation in Brazil. For fisheries, the operation of fishing vessels often represents the largest contribution to fuel consumption and GHG emissions, except when airborne transportation is involved³.

The certificates required in the framework are expected to ensure that soy used in the feed does not come from recently deforested land. The Pro Terra, RTRS Segregation and RTRS Identity preserved certifications secure segregation of certified and non-certified soy, meaning that there is certainty that the physically delivered feed is certified. The ISCC Plus is also viewed as a robust certification in relation to deforestation, while this appears as somewhat more uncertain for the ASC Feed Standard v02.

- ✓ In January 2021, suppliers of soy to Norwegian aquaculture committed to stop trading soy stemming from recently deforested land deforested (see Background and Pitfalls). The issuer has close dialogue with its clients to ensure that feed does not come from recently deforested land.
- ✓ There are additional concerns about the environmental impacts of aquaculture, including escapes, antibiotic and chemicals use, overexploitation of wild fish stocks for feed, and sea lice.
- ✓ The Aquaculture Stewardship Council (ASC) certification to aquaculture facilities mitigates some of these issues by setting stricter limits than national regulation, but has been criticized for tolerating 300 escaped fish per

³ Greenhouse gas emissions of Norwegian seafood products in 2017, SINTEF (https://www.sintef.no/contentassets/25338e561f1a4270a59ce25bcb926a2/report-carbon-footprint-norwegian-seafood-products-2017_final_040620.pdf)



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- production cycle and for a lenient limit on hydrogen peroxide.
- ✓ The issuer confirms that only ASC-certified facilities are eligible for financing. The aquaculture companies expected to receive financing have emissions reporting in place.
 - ✓ According to the issuer, fish (both from aquaculture and fisheries) is handled locally, and biproducts are used in other products, reducing waste.
 - ✓ Aquaculture facilities' source of energy is either diesel generators or electricity. An estimated 60% of facilities in Norway use electricity. Facilities using diesel generators could have operational costs financed under the framework, however diesel generators will not be financed directly.
 - ✓ The Marine Stewardship Council (MSC) is an independent organization that certifies fisheries as sustainable and well-managed⁴. As with most certification schemes, criticisms can and have been raised against the MSC for not being sufficiently stringent in all areas.
 - ✓ 90% of fisheries in Norway are MSC certified. Although direct financing to fossil fuel solutions is excluded, there is a risk that loans to fish-catching and production facilities might not create a large improvement over existing practice.
 - ✓ Cleaner vessels are key for reducing emissions from fisheries. Electricity and hydrogen are key, while sustainably sourced biofuels also have a role to play. In the maritime sector, electric technologies are still in their early stages.
 - ✓ Fishing vessels with contractual commitments to use only biofuels, are eligible, provided the biofuels fulfill the
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⁴ The certification has three groups of criteria: 1) sustainable fish stocks, 2) minimizing environmental impacts, and 3) effective fisheries management.



		sustainability requirements of the EU and Norwegian regulations.
Waste Management and Circular Economy	<i>Loans to finance or refinance acquisition, development, expansion, operation and maintenance of waste management facilities and the related infrastructure, equipment or technologies focusing on and enabling the prevention, reduction, re-use or recycling of waste and materials. This includes, but is not limited to:</i> - Recycling facilities and related infrastructure, including treatment and processing of all types of waste, for the purpose of minimizing the amount of waste to landfill and bring back valuable raw material to the market - Measures to reduce methane emissions from existing and discontinued landfills - Investments that enable a circular economy (e.g. tools or systems to re-use and recycle materials to reduce the quantity of raw materials usage) - ENOVA supported initiatives and solutions	Medium Green ✓ This category is expected to receive less than 5% of proceeds. ✓ Recycling prevents the use of new raw materials and is important in a low carbon future. The extraction and processing of new resources are responsible for some 50 percent of greenhouse gas emissions⁵. ✓ Eligible projects include preparation of sorted plastics for chemical recycling, research and development for better sorting and pre-preparation of plastic, as long as the plastic is non-recyclable. - Waste to energy (heat/cool) is eligible as long as the waste cannot be treated for material recovery and the plant is in Norway. Investments enabling a better treatment of and reduction of emissions to air, as well as improved waste-to-energy production will be eligible.

Table 1. Eligible project categories

Background

Financing institutions and banks are vital driving forces to reach the Paris Agreement and can provide leadership through providing financing of activities necessary to reduce greenhouse gas emissions and adapt to a changing climate. Banks also have a significant role in managing climate risks. Having climate goals for the bank's operations and portfolio, including science-based targets, implementation of TCFD reporting and climate risk assessment of their customers in the ESG due diligence, represents best practices of the sector.

In all the project categories, SBI Nordmøre has include ENOVA supported initiatives and solutions. Enova is a state-owned agency that works towards reducing greenhouse gas emissions to contribute to Norway's climate goals for 2030 and increasing innovation in energy and climate technologies for the transition to a low carbon society. Enova funding originates from the state's Climate and Energy fund and covers projects within the industry, transport, energy system and real estate sectors. Its primary focus in on the transition towards cleaner sources of energy and energy efficiency.

Aquaculture is a booming industry and has surpassed fisheries as the main provider of seafood globally. The industry sits within a complex map of regulatory contexts and voluntary certification schemes.

⁵ European Commission; Circular Economy Action Plan: For a cleaner and more competitive Europe.



The carbon footprint of farmed salmon is around 80% lower than that of beef, slightly lower than that of pork, but higher than that of chicken, according to recent studies⁶. The footprint (at slaughter) is made up almost entirely by the feed production⁷. Except for airfreighted salmon (where feed is of lower relative importance), feed represents between 75-83% of total GHG emissions of salmon delivered to the wholesaler. Land-use change accounts for 28% of emissions at slaughter, and the vast majority is due to soy from Brazil, as its cultivation is linked to deforestation. Soy protein concentrate (SPC) make up 10-26% of the feed produced in Norway, and most of it is imported from Brazil but certified according to ProTerra, which ensures that it is not grown on land converted from native vegetation after 2008. A problem with all certification schemes is that major soy producers currently only certify a small share of their production, while the rest may contribute to deforestation. Demand for soy from Brazil, even if certified, risks displacing non-certified production to new agricultural areas. Certification is therefore not seen as a complete safeguard against deforestation risk. The Brazilian SPC producers recently responded to pressure from the Norwegian aquaculture industry by committing to not purchasing soy grown on land in the Brazilian Serrado deforested after August 2020 or on land in the Amazon deforested after 2006. A system for monitoring, reporting, and verification has been agreed in cooperation with ProTerra and WWF Brazil. SPC is a specialized product for the aquaculture industry. Now that SPC producers are taking the lead in becoming deforestation-free, it means that the deforestation risk is lower in the aquaculture industry than in other animal protein industries that have Brazilian soy in their supply chains, as none of the major soy traders have made similar commitments⁸.

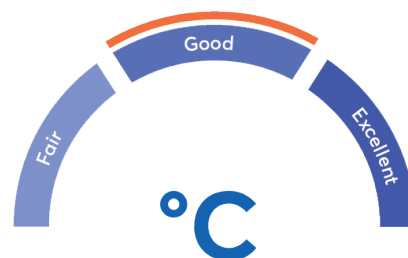
Governance Assessment

Four aspects are studied when assessing the SpareBank 1 Nordmøre'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. 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.

SB1 Nordmøre is well aware that its largest environmental impacts come from its lending portfolio, and from 2022 its standard loan process will be updated to incorporate environmental, social and governance risks, reflecting the bank's goal to better integrate sustainability across its services. The bank is yet to set more specific targets for the environmental performance of its portfolio as well as for its operations. Financed assets will be screened for exposure to physical climate risk, which will be part of the bank's standard loan process from 2022.

Environmental competence is represented in the Green Bond Committee, and the sustainability representative has veto power. The criteria for selection are mostly clearly defined.

Reporting on both allocation and impacts will be verified by a third party, and will also include reporting on alignment with the EU taxonomy technical screening criteria. We see a weakness in that the calculations of environmental impacts from the green buildings category may be overestimated.



⁶ <http://www.fao.org/3/ca7130en/ca7130en.pdf> and Winther, U., Hognes, E.S., Jafarzadeh, S. & Ziegler, F. (2020). Greenhouse gas emissions of Norwegian seafood production in 2017. SINTEF Ocean AS. For the comparison with other foods, emissions relating to land-use were excluded.

⁷ Source: Regnskogsfondet og Framtiden i Våre Hender 2017. Fra brasiliansk jord til norske middagsbord. En rapport om soya i norsk laksefôr

⁸ <https://www.reuters.com/article/us-brazil-environment-soy-idUSKBN28P2I3>



The overall assessment of SpareBank 1 Nordmøre's governance structure and processes gives it a rating of **Good**.

Strengths

The framework's broad scope combined with mostly specific criteria is a strength, showing the bank's thorough knowledge of the relevant sectors. In particular, it is positive that for aquaculture, only facilities using certified soy feed are eligible for financing, as there is generally a risk of deforestation related to growing soy for feed. Aquaculture companies expected to receive financing have emissions reporting in place. The framework's criteria for agriculture focus on identifying emissions sources and financing technologies or process improvements with quantified impacts on emissions in the sector. Eligible loans in the agriculture category are not general loans to farms but loans to specific climate friendly activities.

It is a strength that fossil fuel related equipment is explicitly excluded across all categories, and that the framework may finance technologies replacing fossil fuels in sectors where cleaner technologies are not yet widely in use, such as in agriculture and the marine sector.

SB1 Nordmøre's use of a project's receipt of Enova funding as an eligibility criterion across several project categories is another strength. Enova is a reputable state-owned enterprise that conducts sound environmental analysis before providing funding. Those projects are likely to contribute to reducing greenhouse gas emissions and/or contribute to innovation within energy and climate technologies.

Weaknesses

We find a weakness in the framework's reporting on impacts from the green buildings category. For both new and existing buildings, the issuer plans on reporting avoided energy use (in kWh/m² or in percentage terms) relative to national standards or Norwegian average. There is thus a risk that the environmental benefits of the financed buildings are overestimated, and even more so if the calculation is based on the Norwegian average⁹. There is no certainty that the financed existing buildings directly replace buildings with weaker energy performance. For newly constructed buildings, it makes sense to compare their energy use to that required by the regulation. The impact reporting would be more transparent if the issuer reported the actual energy use of the financed buildings.

Pitfalls

While assets financed will be screened for physical climate risk exposure, this does not guarantee that sufficient adaptive measures have been implemented. Where an asset's exposure is seen as material, it is not clear how the issuer will check whether its clients have implemented such measures or if this will be a reason for excluding the loan from green bond financing. This is in particular relevant for buildings, which in general are expected to be highly exposed to physical climate risks.

For loans to aquaculture and fisheries, SB1 Nordmøre's eligible project categories to a large extent rely on generic and international standards. Since the issuer's area of operation is Norway, where environmental standards are already quite high, the international standards, such as ASC and MSC, do not in themselves represent a high environmental ambition. The eligibility of ENOVA supported initiatives as well as clean energy vessels contribute to improving the level of ambition of the category, while the criteria for soy feed mitigate the risk of contributing to deforestation. Deforestation in Brazil has constituted a major part of the lifecycle GHG emissions of farmed

⁹ The most recent available official data from Statistics Norway is from 2012 and 2011. The average energy use for residential buildings in 2012 was 181 kWh/m² (in use). The average energy use in commercial buildings in 2011 was 230 kWh/m² (in use). Average energy use by all real estate activities (2011) in Norway: 179 kWh/m² (in use) (Statistics Norway). (see: https://cicero.oslo.no/file/2/sectorbriefs_realestate_17_12.pdf/download)



salmon. The deforestation risk in the physical supply chain for salmon aquaculture has been reduced as the suppliers of soy to this industry have pledged to become deforestation free (see Background). The issuer has confirmed that it has dialogue with its client on the deforestation risk, encouraging them to source feed from suppliers committed to become deforestation free.

In a low carbon 2050 perspective, the energy performance of buildings is expected to be improved, with passive and plus house technologies becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments. While the framework's criteria for newer residential buildings, some of the eligible building certifications as well as the criteria for refurbishments represent steps towards a low carbon future, the Light Green shading reflects that the framework also allows for financing of buildings with no additional energy efficiency requirements. In the Norwegian context, it is a particular challenge that the availability of updated and encompassing energy data for buildings is very limited. In addition, it is a pitfall that, except for the FutureBuilt, "Paris Proof" BREEAM and Nordic Swan Ecolabel certified buildings, the criteria for new buildings do not include considerations of emissions from material use or construction phase emissions.



Appendix 1:

Referenced Documents List

Document Number	Document Name	Description
1	SpareBank 1 Nordmøre's Green Bond Framework	Green bond framework of SpareBank 1 Nordmøre, dated October 2021.
2	Annual report SpareBank 1 Nordvest 2020	Annual report of SpareBank 1 Nordvest for the financial year 2020, dated March 2021.
3	Guidelines for sustainable distribution and recommendation of mutual fund SpareBank 1.	Internal guidelines for environmental, social and governance aspects to be followed by any funds distributed by banks within the SpareBank 1 Alliance, dated May 2021.
4	Sustainability strategy SpareBank 1 Nordmøre	Sustainability strategy for SB1 Nordmøre.
5	Procurement strategy SpareBank 1-Alliansen 2021-22	General procurement strategy for SpareBank 1 Alliance for 2021-2022, dated december 2020.
6	Procurement Strategy SpareBank 1-Alliansen 2020-2022	Key principles of procurement policy, version revised in January 2020.
7	Action Plan Sustainability in Procurement 2021-2022	Internal action plan for sustainable procurement for 2021-2022, for the SpareBank 1 Alliance, dated September 2021.



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

