

SpareBank 1 Hallingdal Valdres Green Finance Framework



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SpareBank 
HALLINGDAL VALDRES

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About SpareBank 1 Hallingdal Valdres

SpareBank 1 Hallingdal Valdres ("SB1HV") was established in 1870, and since then has grown to be the largest locally-owned financial institution in Hallingdal and Valdres, and an important cornerstone for the local community.

With 177 employees and total assets of NOK 11,4 billion in 2019, SB1HV remains a part of the local market and close to its customers by providing services through nine locations across nine municipalities.

Our core business is to meet the everyday banking needs of local and regional customers, and we cater to both private and business customers through a range of credit and deposit products.

Approximately 70% of our customers are private customers and 30% are businesses, comprised primarily of local small and medium-sized enterprises.

SB1HV has existed in its current form since 2012. It has two subsidiaries (EiendomsMegler 1 Fjellmergleren AS and SpareBanks 1 Regnskapshuset Valhall AS) and is owned by two foundations: SpareBankstiftelsen Hallingdal and SpareBankstiftelsen Øystre Slidre. These foundations have the goal of promoting savings banking activities in their respective municipalities by owning equity certificates in SB1HV and allocating a portion of the bank's profits for non-profit purposes.

Our vision is to be recommended by the customer, and this gives us a great responsibility towards them, our employees, our owners, and the broader community. It is this responsibility that supports our drive to raise awareness of the environment and sustainability within the community.

What we do

In line with our vision, sustainability forms a core component of our strategy, and we have worked to integrate environmental and sustainability considerations across our value chain.

Beginning with a focus on our own operations, SB1HV has developed internal routines related to sustainability, social responsibility, ethics, and environment, and works with these topics at three levels: 1) Our role in influencing our customers in the right direction from a local, national, and global perspective; 2) Our role as a company; and 3) Our role in providing advice and developing products that support responsible, sustainable choices. We work continuously to improve our performance across all three of these levels.

Supporting this work is SB1HV's "Våre prinsipper for miljø, etikk, samfunnsansvar og bærekraft" document, which acts as the guiding document for all our activities and a foundation outlining our approach to sustainability. It documents, among other things, sustainable procurement guidelines linked to ILO and UN conventions, sector-specific considerations and exclusions, efforts to minimize negative environmental impact, and other applicable sustainability guidelines followed.

Additionally, it outlines support for the UN Global Compact's 10 Principles for Sustainable Business and the Sustainable Development Goals, specifically:

- Goal 5: Gender Equality
- Goal 8: Decent work and economic growth
- Goal 13: Climate action
- Goal 17: Partnerships for the goals

SB1HV issued its first green credit product in 2015, and building on this foundation, from January 2019 SB1HV has hired full-time sustainability-responsible employee to work both internally and externally with sustainability in both strategy and operations. Further formalizing our commitment to sustainability, in 2019 SB1HV also became Eco-Lighthouse certified, under the industry specific criteria for banking and finance in addition to the overall criteria.

Looking forward

We understand that in order to continue to serve our customers and community in a sustainable manner we will need to build on our achievements to date.

As of January 2020, SB1HV has signed the UNEP FI Principles for Responsible Banking. “The Principles provide the framework for a sustainable banking system and help the industry to demonstrate how it makes a positive contribution to society.”

SB1HV is also in the process of incorporating the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) within the organization. The methodology provided by TCFD is a valuable asset for alignment with industry standards, and sustainability will form an integral component of our strategy for 2021 – 2023, anchored in specific goals and targets.

On this point, we also strive to develop targets and indicators, related to not only our direct environmental impact, but also the rest of the supply chain. This includes suppliers and purchases, lending for both households and businesses, as well as investments (both our own and which funds we recommend that our customers invest in).

Finally, we will continue to leverage the ongoing work within the SpareBank 1 Alliance to develop an ESG system for the funds we distribute, which also includes ESG guidelines.

Green Finance Instrument definition:

Green Finance Instruments are any type of financial instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Assets with environmental benefits aligned with the four core components of the Green Bond Principles (“GBP”) established by the International Capital Market Association (ICMA).

Scope of issued instruments:

This Green Finance Framework has been developed by SB1HV to facilitate the issuance of Green Finance Instruments. These instruments can include, but are not limited to, Green Bonds, Green Commercial Papers, Green Private Placements, Green Loans, and other types of debt or deposit instruments in line with the definition of “Green Finance Instrument” provided above.

SB1HV’s Green Finance Framework has been developed in alignment with the Green Bond Principles 2018, and is structured around the four components of these principles: 1)

Use of Proceeds, 2) Process for Project Evaluation and Selection, 3) Management of Proceeds, and 4) Reporting.

CICERO has provided a Second Opinion to this Green Finance Framework, which is also publicly available on SB1HV's website.

Use of Proceeds

The proceeds from SB1HV's Green Finance Instruments will be exclusively allocated to Eligible Assets.

"Eligible Assets" include projects and assets that target:

- a) The mitigation of climate change, such as through investments in green buildings, energy efficiency, renewable energy, innovative technology with a potential for significant future energy savings, clean transportation, and waste management;
- b) The adaptation to climate change, such as water and wastewater management; or,
- c) Environmental and ecosystem improvements, such as emissions reduction and waste management

As outlined in the Green Bond Principles, and to reflect SB1HV's commitment the future development of green finance, this Green Finance Framework strives to align, where possible, to the principles, metrics, and thresholds of the EU Taxonomy released in March 2020.

While the smaller scale of SB1HV's customer base may not make full alignment feasible for all activities, SB1HV aims to evaluate Eligible Assets against the EU Taxonomy guidance by determining whether they substantially contribute to the environmental objectives of the EU Taxonomy, do no significant harm, and comply with minimum safeguards.

SB1HV has not yet performed Do-No-Significant-Harm (DNSH) assessments on a project/Eligible Asset level, but given the local nature of SB1HV's activities, it is presumed that the Eligible Assets comply with relevant Norwegian legislation which provides strong labor and environmental protection.

A detailed list of the Eligible Project categories and eligibility criteria SB1HV uses to identify Eligible Assets, along with a summary of alignment to the EU Taxonomy are included in the Appendix to this document.

Any project/activity/measure which has been granted Enova support within industry and construction is eligible for green loans (but still needs an approved credit rating and to meet other criteria).

This framework covers the full geographical scope of SB1HV's operations which are limited to Norway. If the scope of operations should move outside of Norway, the same strict criteria, consideration of rebound effects, and avoidance of projects/assets that prolong the life of fossil fuels will be applied.

Exclusions: The proceeds from the issuance of SB1HV's Green Finance Instruments will not be used to finance nuclear or fossil fuel energy generation, weapons and defense, gambling, tobacco, or other activities in violation of SB1HV's established sector guidance and the ten principles of the UN Global Compact.

Process of Asset Evaluation and Selection of Eligible Assets

Eligible Assets are defined in this Green Finance Framework, and SB1HV will exercise professional judgement and sustainability expertise when assessing projects against the relevant criteria.

Additionally, SB1HV screens all Eligible Assets for potential controversies, works to understand and resolve these through stakeholder dialogue, and considers the potential controversial nature of an eligible project in its credit risk evaluation. SB1HV is also an active participant in Finans Norge's ongoing work on nature risk, including biodiversity risk.

The selection process is applied at the "project/asset level", and projects/assets are assessed for eligibility as part of SB1HV's existing credit decision process. For most standard green retail products (eg. Solar loans, green mortgages, etc...) the credit team has the required competence to identify potential eligible assets, select the appropriate criteria, and request the required documentation. For potentially more complex transactions, the sustainability-responsible will be involved to assess asset eligibility. Additionally, for business lending the borrower must complete a self-declaration covering how they identify and work with climate risk.

Once the asset has been identified as eligible for green financing it is sent to the credit committee (HKU) for review and approval. There are separate HKUs for private lending and business lending, both of which meet a minimum of twice per week. Both HKUs are comprised of the CEO, CFO, Head of Credit/Lending Operations and, when an asset eligible for green financing is reviewed, the sustainability-responsible individual. At this stage the sustainability-responsible has the ability to veto the green financing. Once approved, the lending is assigned a relevant green product code in the system, distinguishing it from a regular lending product. This documents compliance with the Green Finance Framework, facilitates tracking of the green lending, and results in a registry of green lending (Green Lending Registry) to date.

On a quarterly basis the Head of Credit/Lending Operations reviews the Green Lending Registry, confirming the eligibility of financing for selected assets. If an ineligible financing is identified the HKU has the authority to remove the loan from the registry, following discussion with, and approval from, the sustainability-responsible.

Management of Proceeds

Net proceeds from green bond issuances will be credited to a designated green bond proceeds account (Green Bond Account) while funds received as green deposits are credited to a designated green deposits account (Green Deposits Account). Funds from these designated Green Bond and Green Deposits Accounts will be used exclusively to finance approved Eligible Assets from SB1HV's Green Lending Registry. All transfers to and from the designated green funding accounts will be documented to ensure transparency and control.

On a quarterly basis the balance of the Green Bond and Green Deposits Accounts will be reviewed and adjusted as necessary to reflect the amounts advanced for financing and any repayment or prepayment of Eligible Assets in the immediately preceding quarterly period.

During the review of SB1HV's Green Lending Registry projects can be added or removed, as required, from the registry. In such case, the balance of the allocated/unallocated proceeds from the Green Bond and Green Deposits Accounts shall be updated accordingly.

Any unallocated proceeds (from either green bonds or deposits) will be held as cash or in the short-term money market. For the avoidance of doubt, unallocated proceeds will never be placed or invested in a manner that breaches SB1HV's responsible and ethical investment guidelines.

Additionally, proceeds raised through Green Finance Instruments will not be used for general operational expenses or other general corporate expenditures.

Where proceeds from Green Finance Instruments are insufficient to meet the demand for green lending, proceeds from regular funding sources (deposits and bond issuances) will be used to fund green lending.

Reporting

To provide transparency and insight into our green financing progress, SB1HV will produce a report on a minimum annual basis describing the financing of Eligible Assets. The report will be made available on SB1HV's Investor Relations website and will include, but not be limited to, the following:

- 1) Total value of green funding received during the period (Eg. Funding from green bonds or green savings accounts, and the number of green savings accounts open as at the reporting date);
- 2) Total volume and value of green lending completed for the period;
- 3) Value of green funding received which remains unallocated to green lending as at the reporting date (if any);
- 4) Value of funds used for financing vs. re-financing during the period
- 5) A list of the different categories of eligible projects/assets financed and the percentage distribution to each such category;
- 6) A description of a selection of eligible projects/assets as examples of green financing activities during the period;
- 7) A summary of the bank's green funding and lending activities for the period (eg. Material development such as the issuance of a green bond or receipt of a large deposit)

SB1HV encourages environmental impact reporting and works towards a portfolio impact reporting capability. Where feasible we will also report on the following metrics (where relevant for eligible projects/assets):

- Type of certification and degree of certification for buildings (LEED/BREEAM, etc...)
- Energy performance certificate class
- Energy usage for the building kWh/m²/year and energy savings (kWh)
- Estimated annual reduction of CO₂ emissions (Tons CO₂e)
- Installed capacity (MWh) or expected annual generation (MWh)
- Number of people with access to sustainable transport systems
- Number of fossil-free vehicles funded
- Number of electric vehicle charging points installed
- Avoided resource waste (ton)
- Materials sustainably sourced or recycled (ton)
- Reduction of hazardous materials used (ton)

SB1HV will review this Green Finance Framework on an ongoing basis and reserves the right to make updates if potential areas of improvement are identified, or in order to amend the scope of eligible projects/assets. In the case where the Green Finance Framework is updated, an updated Second Opinion will be obtained over the new Green Finance Framework and made publicly available.

Appendix A: SB1HV Eligible Asset criteria and alignment to EU Taxonomy

GBP Category	Eligible Project Types
<p>Green Buildings</p>	<p>New Buildings: Projects that have received Enova support or the construction of new commercial or residential buildings with an energy use per year on a m2 basis that is at least 20 percent lower than that required by the applicable national building regulation (Eg. TEK17 in Norway) at the time of funding by SB1HV, or that meet at least the minimum requirements of one of the following:</p> <ul style="list-style-type: none"> a. The LEED New Construction or Core and Shell “Gold” or “Platinum” certification; b. The BREEAM New Construction “Excellent” or “Outstanding” certification; c. International Passive House Association guidelines; or, d. Energy label of light or dark green A* <p>Existing Buildings (building renovation): Renovation projects for commercial or residential buildings, or industrial processes which have received Enova support or achieve:</p> <ul style="list-style-type: none"> e. A reduction in energy use per year of at least 30 percent on a m2 basis; (commercial and residential buildings) f. A reduction of power output requirements (in kW/MW) of an existing building by at least 20 percent; (comm and residential buildings, or process) g. Obtaining an energy label of dark green A* for commercial and in line with the criteria in Appendix B for residential; h. The use of surplus heat from industrial processes (min 100 MWh/year); i. A reduction in greenhouse gas emissions for industrial processes (minimum 30,000kg of CO2E/year) <p>Existing Buildings (Individual renovation measures, installation of renewables on-site and professional, scientific, and technical activities): Individual measures that have received support from or are recommended under Enova or that lead to a reduction in greenhouse gas emissions over the life of the building, including:</p> <ul style="list-style-type: none"> j. Addition of insulation to the existing envelope components; k. Replacement of existing components with more energy efficient alternatives (Eg. HVAC and domestic hot water systems, boiler, old pumps); l. Installation of energy efficient upgrades (Eg. Zoned thermostats, smart thermostat systems and sensing equipment, building or energy management systems, charging stations for electric vehicles, roofing elements with solar shading or solar control function, solar PV systems, solar hot water panels, heat pumps, wind turbines, solar transpired collectors, thermal or electric energy storage units, high efficiency micro CHP plant using locally sourced biofuel, heat exchanger/recovery system) m. Relevant professional services (Eg. Technical consultations linked to the measures above, accredited energy audits and building performance assessments, energy management services, energy performance contracts,

	<p>energy services provided by energy service companies)</p> <p>* Energy label requirements detail: Commercial: New build - Green A; Existing building with upgrading – Green A; Residential: A company buying several residential/cabins – Yellow or Green A; Entrepreneur building residential/cabins for the private market should build to standard of yellow or green A.</p> <p><i>If the energy label certification is updated within the period of this Green Framework, SB1HV will defer to the new definition</i></p>
Renewable energy	<p>Renewable energy: Projects that have received Enova support, or:</p> <ol style="list-style-type: none"> 1. Increased electrical or thermal energy production from renewable energy sources such as solar, wind, geothermal, tidal, hydro (power density above 5 W/m²), or bioenergy for smaller systems (Eg. Farms and local district heating) with a focus on locally sourced inputs, and any related infrastructure; 2. Onsite renewable energy generation used to power the building and/or sent back to the grid (solar, wind, geothermal, tidal, hydro); 3. Infrastructure (transmission or storage) related to the above sources of renewable energy
Clean transportation	<p>Clean transportation: Projects that have received Enova support or any transportation solutions/systems/ processes based on non-fossil fuel solutions, and any related/supporting infrastructure.</p>
Pollution prevention and control	<p>Waste management: Projects that have received Enova support, or either prevent or reduce waste/pollution through new technology or process improvements, such as improved sorting solutions for food or other waste material. Waste-to-energy solutions must also consider improving the recycling percentage. All solutions must be able to show a significant improvement compared to alternatives.</p>
Sustainable water and wastewater management	<p>Water and wastewater management: Projects that have received Enova support or target sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable drainage systems, and forms of flood mitigation.</p>
Environmentally sustainable management of living natural resources and land use	<p>Forestry: Projects that have received Enova support or comply with Norwegian national legislation for forestry, 'Skogbruksloven', and 'Naturmangfoldsloven', in addition to being certified by a relevant forestry standard such as 'Norsk PEFC Skogstandard' or similar.</p>

GBP /GLP category	Subcategory	EU Taxonomy Activity	SB1HV alignment to EU Taxonomy
Green buildings	New Buildings	Contrsuction of new buildings	☑
	Existing buildings	Building renovation	✓
		Individual renovation measures, installation of renewables on-site and professional, scientific and technical activities	✓
		Installation and operation of Electric Heat Pumps	✓
		Production of Heat/cool from Geothermal	✓
		Production of Heat/cool from Bioenergy (Biomass, Biogas, Biofuels)	✓
	Production of Electricity from Bioenergy (Biomass, Biogas and Biofuels)	✓	
Renewable energy	Production	Production of Electricity from Solar PV	✓
		Production of Electricity from Wind Power	✓
		Production of Electricity from Hydropower	✓
		Production of Electricity from Geothermal	✓
		Production of Electricity from Bioenergy (Biomass, Biogas and Biofuels)	✓
		Manufacture of Biogas or Biofuels	✓
		Production of Heat/cool from Bioenergy (Biomass, Biogas, Biofuels)	✓
		Production of Heat/cool using Waste Heat	✓
	Storage	Landfill gas capture and utilization	✓
		Storage of Electricity	☑
		Storage of Thermal Energy	☑
	Infrastructure	Storage of Hydrogen	☑
		Transmission and Distribution of Electricity	☑
Clean transportation	Land transport	District Heating/Cooling Distribution	✓
		Public transport	✓
		Passenger cars and commercial vehicles	✓
		Interurban scheduled road transport	✓
	Freight transport services by road	✓	
Infrastructure	Infrastructure for low carbon transport (land transport)	✓	
Pollution prevention and control	Waste management	Separate collection and transport of non-hazardous waste in source segregated fractions	☑
		Composting of bio-waste	✓
		Material recovery from non-hazardous waste	✓
		Landfill gas capture and utilization	✓
		Anaerobic digestion of bio-waste	✓
Sustainable water and wastewater management	Wastewater	Anaerobic Digestion of Sewage sludge	✓
		Water collection, treatment and supply	✓
		Centralized wastewater treatment	✓
Environmentally sustainable management of living natural resources and land use	Forestry	Rehabilitation, Reforestation	✓
		Reforestation	✓
		Existing Forest Management	✓
		Conservation forest	✓

☑	The criteria are aligned with the Taxonomy activity in both principle and threshold
✓	The criteria are aligned with the Taxonomy activity in principle, but SB1HV currently applies different thresholds



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