



# SpareBank 1 Hallingdal Valdres Green Bond Second Opinion

August 19, 2020

**SpareBank 1 Hallingdal Valdres ('SB1HV')** is an independent local savings bank, providing loans for private and business clients. It is one of 14 banks in the SpareBank 1 alliance and has 9 branches in 9 communes in the region. SB1HV primarily focuses on loans for buildings, but also conducts other activities within agriculture and industries relevant to the Hallingdal Valdres region. SB1HV has a strategy to be at the forefront of the green shift in its market areas. The bank currently has seven green products available, with three of these added to the portfolio in 2019.

**Included in SB1HV's green bond framework are green buildings, renewable energy, forestry, waste management and water and wastewater management.** SB1HV has elected to align with the EU Taxonomy thresholds and metrics for select categories, where relevant and feasible. SB1HV expects that the majority of green loans will be directed towards the Green buildings category. It is estimated that around 80% of funds will be allocated to finance new projects, while around 20% will be refinancing. Investors should be aware that while all buildings must be one level above national TEK standards which is to be eligible for funding, there is still a possibility that newly built (after 2009) large cabins in the mountain area could receive financing without any screening for maximum size or low carbon transportation.

**SB1HV has demonstrated a long-standing commitment to sustainability and promoting environmental issues and climate change mitigation.** The bank reports on its Scope 1, 2 and 3 emissions and is incorporating TCFD recommendations into its 2021-2023 strategy. Borrowers complete self evaluations for climate risk, and rebound effects. Life-cycle assessments and sector-based ESG risk evaluations will be integrated into project selection, however SB1HV's methodologies for conducting LCAs are limited for certain sectors. The 'sustainability-responsible individual' is consulted throughout the process and is given veto power. Reporting is along key metrics and give a good indication of the bank's contribution towards climate goals.

Based on the overall assessment of the projects that will be financed under this framework, and governance and transparency considerations, SB1HV's green bond framework receives a **CICERO Medium Green** shading and a governance score of **Excellent**. In order to further improve the framework, SB1HV could tighten its eligibility criteria for buildings in order to include climate resilience considerations. In addition, SB1HV could ensure robust life-cycle considerations are conducted for all sectors.

## SHADES OF GREEN

Based on our review, we rate the SB1HV'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 SB1HV's framework to be **Excellent**.



## GREEN BOND PRINCIPLES

Based on this review, this Framework is found to be in alignment 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 19 June 2020. 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.



**Brown** is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future.

### 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



New infrastructure for coal

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 Hallingdal Valdres' green bond framework and related policies

SpareBank 1 Hallingdal Valdres ('SB1HV') is a local savings bank established in 1870 and has existed in its current form since 2012. SB1HV has 9 locations in 9 communes in the Hallingdal and Valdres regions of Norway. It is one of 14 independent savings banks in the SpareBank 1 alliance. SpareBank 1 is Norway's second largest finance group in terms of assets. Total assets held by SB1HV in 2019 was NOK 11.4 billion.

The bank's core purpose is to meet the everyday needs of local and regional clients through a range of credit and deposit products. The client base is comprised of private individuals (70%) and businesses – primarily local small and medium-sized enterprises (30%). The bank recognizes its role in promoting sustainability within its operations and aims to address these at all levels: to their clients in providing sustainable products as well as internal sustainability measures.

### Environmental Strategies and Policies

SB1HV has outlined its climate goals in a document "principles for environment, ethics, community responsibility and sustainability", which it uses to guide all of its activities. This document is in line with Finans Norge's 2018 guidelines to reach climate goals by 2030. SB1HV's document includes sustainable procurement guidelines linked to the ILO and UN conventions, sector-specific considerations and exclusions, efforts to minimize negative environmental impact. Specifically, SB1HV has clear strategies that align with Goals 5 (Gender equality), 8 (Decent work and economic growth), 13 (Climate action) and 17 (Partnerships for the goals) of the UN Sustainable Development Goals, as well as the UN Global Compact's 10 Principles for Sustainable Business.

The annual report examines progress towards its climate goals. The bank reports on its Scope 1, 2 and 3 emissions, and plans to extend this reporting to emissions from lending. Total reduction in CO<sub>2</sub> emissions in 2019 was 247.95 tCO<sub>2</sub>e, which is a 25% reduction from 2018 levels. This reduction was due to greater energy efficiency and reductions in office space, as well as lower emissions factors in electricity. In 2019, emissions within all three categories declined from 2018 levels.

The bank has internal policies in place to reduce Scope 1, 2 and 3 emissions and other local environmental impacts. SB1HV aims to reduce district heating by 20%, electricity consumption by 20%, reduce waste sorting by 70%, increase by 50% the use of electrical cars for business trips. In addition, SB1HV has identified clear guidelines on considerations for office procurement, environmental and social policies and regulations directed towards suppliers and an internal travel policy to reduce Scope 3 emissions through a reduction in business travel and encouraging public transportation and the use of electric vehicles.

Climate-related risk will be included for the first time in the 2020 reporting period following the TCFD recommendations, and these will be used to inform the bank's 2021-2023 strategy. In addition, SB1HV is actively working with Finans Norge on its work with natural risk, including biodiversity risk.

SB1HV has a strategy to be at the forefront of the green shift in its market areas. The bank currently has seven green products available, with three of these added to the portfolio in 2019. This includes a green savings account, in which all deposited savings go to the bank's green loans. SB1HV reports the green balance, as well as



distribution between buildings, solar loans, heat pump loans etc. in its quarterly report. While the green balance is relatively modest compared to the bank's total loan portfolio, the bank has almost tripled its green loan volume between 2018 and 2019, with a total volume of NOK 74 million, and is on a trajectory to increase this amount in the future. SB1HV aims to issue its first green bond in the 3<sup>rd</sup> quarter of 2020. The majority of green financing was in solar cell loans, but there have been significant increases in green mortgages (bustadlån).

All departments within SB1HV are certified by Eco-Lighthouse ("Miljøfyrtårn") in Norway, which sets strict criteria on environmental standards. SB1HV complies with both industry specific criteria for banking and finance as well as the overall criteria. SB1HV has recently signed the UNEP FI Principles for Responsible Banking. The bank currently conducts analyses based on the Greenhouse Gas Protocol's Corporate Accounting and Reporting Standard. It has also identified and complies with standards within multiple sectors, including the RBS standard for biofuels within sustainable agriculture, CITES criteria for biodiversity conservation.

### Use of proceeds

The proceeds from SB1HV's Green Finance Instruments will be exclusively allocated to Eligible Assets. SB1HV will issue finance instruments that include – but are not limited to – Green Bonds, Green Commercial Papers, Green Private Placements, and Green Loans. Eligible Assets include projects and assets that target the mitigation of climate change through investments in green buildings, energy efficiency, renewable energy, innovative technology with a potential for significant future energy savings, clean transportation and waste management; adaptation to climate change such as water and wastewater management; and environmental and ecosystem improvements. SB1HV has informed us they expect the majority of loans issued to be within the building sector, based on historical loan issuances. It is estimated that around 80% of funds will be allocated to finance new projects, while around 20% will be refinancing.

SB1HV has committed to comply with the EU Taxonomy for six categories within its eligibility criteria:

- 'Construction of new buildings' within Green buildings;
- 'Storage of electricity', 'Storage of thermal energy', 'Storage of hydrogen', and 'Transmission and distribution of electricity' within Renewable Energy category;
- and 'Separate collection and transport of non-hazardous waste in source segregated fractions' within the Pollution Prevention and Control category.

Given the small, local scale of their client base, the bank recognizes that it is not feasible to fully align with the EU taxonomy for the remaining categories and have therefore sourced thresholds for the remaining categories from other regulating bodies e.g., Enova, FSC, PEFC. These thresholds are still aligned 'in principle' with the EU Taxonomy. It is assumed that compliance with Norwegian legislation and its strong labor and environmental protection laws will also lead to compliance with EU Taxonomy's Do-No-Significant-Harm assessments.

Any project that has been granted Enova support is eligible for green loans. Enova is a state-owned enterprise 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, the energy system, and real estate sectors, and works towards reducing carbon emissions in all sectors. Similar to the Taxonomy, many Enova programs are not geared towards small businesses so SB1HV has made some modifications to the criteria to make thresholds more applicable for small businesses. These guidelines have already been implemented in SB1HV's green business loans.

SB1HV specifically excludes projects developed on peatland, projects associated with the oil & gas or maritime industry, as well as the financing of nuclear or fossil fuel energy generation, weapons and defense, gambling,



tobacco and other activities that violate SB1HV's established sector guidance and/or the ten principles of the 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.

Selection occurs at the project/asset level through SB1HV's existing credit decision process, the criteria for which has been made publicly available. To aid this process, the business lending application requires applicants to draw up a self-evaluation of climate risk as well as to have a clear strategic plan on how to reduce long term emissions. SB1HV itself is also in the process of drawing up a more extensive, sector-based ESG evaluation for credit risk and advisors, to which the climate risk evaluation will be one of several inputs.

The credit team, comprised of the Head of Credit/Lending Operations, professionals for private and business lending and the "sustainability-responsible" individual, reviews and approves the project. SB1HV has stated the team has the required expertise to identify eligible projects and assets and ensure compliance with eligible criteria. The sustainability-responsible individual is specifically consulted in the case of more complex transactions, and has veto power for green financing projects. SB1HV has informed us they have not yet experienced any controversial projects; however, they are aware of this risk and for each project will consider impacts and potential conflict resolution in addition to confirming the project meets relevant performance thresholds. These projects also face further internal scrutiny due to the potential negative reputational impact.

The selected projects are earmarked as green products, and tracked in a Green Lending Registry. This Registry is reviewed on a quarterly basis by the Head of Credit/Lending Operations, who also has background on ESG impacts) to confirm eligibility for selected assets. The sustainability-responsible individual is consulted for further outstanding sustainability-related questions. If a project or asset is deemed ineligible in this review process, the credit team is able to remove a loan from the registry following discussion with and approval from the sustainability-responsible individual.

### Management of proceeds

CICERO Green finds the management of proceeds of SB1HV to be in accordance with the Green Bond Principles. Net proceeds and green deposits are segregated into two different accounts the Green Bond account and the Green Deposits Account respectively. The funds will be used exclusively to finance individual disbursements to approved Eligible Assets listed in the aforementioned Green Lending Registry, and all transfers to and from the green funding accounts will be tracked and documented. The proceeds will be allocated to individual disbursements. Following a quarterly review, the balance of the two accounts will be adjusted as necessary to reflect amounts advanced for financing and any repayment or prepayment of Eligible Assets during that period. In the case that projects are removed or updated in the Green Lending Registry in the quarterly review, the balance of allocated/unallocated proceeds will also be updated.

Unallocated proceeds are held as cash, or in the short-term money market. The total unallocated amount will be disclosed, and will only be placed in investments that align with SB1HV's responsible and ethical investment guidelines. Proceeds will not be used for general operational or corporate expenses. In addition, where proceeds are insufficient to meet the demand for green lending, proceeds from regular funding sources will be used to fund green lending. These regular funding sources are not subject to any criteria to be eligible to fund green lending.



## 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.

It is the ultimate responsibility of the CFO, with support from the relevant departments within SB1HV to release a report at least once a year to the SB1HV investor relations website describing the financing of the Eligible Assets described above. Reporting will include relevant metrics such as total value of green funding received during the period, total volume and value of green lending completed for the period, value of green funding received which remains unallocated, value of funds used for financing vs. re-financing. The report will include an aggregated list of the categories of eligible projects financed and the percentage distribution to each category, as well as some examples of flagship or notable selected projects that received green financing during that period. Finally a summary of the bank's green funding and lending activities for the period will be provided.

SB1HV will, where feasible and relevant for each project/asset, conduct impact reporting on:

- certification and degree of certification for buildings,
- energy performance certificate class,
- energy usage for the building in kWh/m<sup>2</sup>/year and energy savings in kWh,
- estimated annual reduction of CO<sub>2</sub> emissions,
- installed capacity or expected annual generation,
- 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,
- materials sustainably sourced or recycled,
- reduction of hazardous materials used.

Grid emissions factor used will be based on values for the Norwegian grid, given that all SB1HV's financing is located within Norway. For private loans, impact reporting will be conducted by SB1HV, while business loans will be required to, within 6 months of completion of their project, conduct and report their own measurements of these metrics. While the detailed methodology and assumptions for this reporting will not be made publicly available, SB1HV will publicly release a general summary of the process.

The reporting methodology will be updated as is deemed necessary given new information. The reporting will be reviewed as part of the internal reporting process and external reviewing will not be commissioned. SB1HV has informed us this remains an open point for discussion as the reporting, investor and market demands evolve.



### 3 Assessment of SpareBank 1 Hallingdal Valdres’ green bond framework and policies

The framework and procedures for SB1HV’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 SB1HV 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 SB1HV’s green bond framework, we rate the framework **CICERO Medium Green**.

#### Eligible projects under SpareBank 1 Hallingdal Valdres’ 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
Green Buildings	<p><b>New Buildings:</b> 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, and that meet at least the minimum requirements of one of the following :</p> <ol style="list-style-type: none"> <li>The LEED New Construction or Core and Shell “Gold” or “Platinum” certification;</li> <li>The BREEAM New Construction “Excellent” or “Outstanding” certification;</li> <li>International Passive House Association guidelines; or,</li> <li>Energy label of light or dark green A*</li> </ol>	<p><b>Medium Green</b></p> <ul style="list-style-type: none"> <li>✓ SB1HV has informed CICERO Green that the Green Buildings category will make up the majority of projects financed based on trends in customer demand.</li> <li>✓ The listed criteria reflect a high environmental standard, however the points-based system of voluntary certifications like the LEED and BREEAM mean the ‘Gold’ and ‘Excellent standard may not guarantee low climate impact.</li> <li>✓ Buildings are only eligible if they lead to an upgrading of the energy label to the level above national</li> </ul>





**Existing Buildings (building renovation):** Renovation projects for commercial or residential buildings, or industrial processes which have Enova support or achieve:

- 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 light or 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 (minimum 30,000kg of CO2E/year)

**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:

- j. Addition of insulation to the existing envelope components;
- k. Replacement of existing components with more energy efficient alternatives (Eg. Windows, doors, HVAC and domestic hot water systems, boiler or stove, 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

standards for the relevant time period. E.g., houses built before 2010 will require upgrading to Energy label C (TEK-10 aligned), houses built between 2010-2016 will require upgrading to level B (TEK-17 aligned), and houses built after 2017, will require level A, which is above TEK-17. These differing thresholds are used to encourage the renovation of older buildings to more energy efficient standards.

- ✓ For new builds, the whole construction will be financed. For multiple-building projects, all buildings will be individually assessed for their fulfilment of relevant green criteria to determine their individual eligibility for funding.
- ✓ SB1HV has specified that any commercial building or business may be eligible provided they decrease electricity use from the grid by 100MWh/year, e.g., by installing solar panels or heat pumps. These buildings may still have the same energy use (i.e. energy efficiency may not be improved).
- ✓ For industrial buildings, SB1HV will finance the installation of facilities to use surplus heat, but not the building renovation itself.
- ✓ Access to public transportation, bicycle parking and electric car charging infrastructure as well as material use are specifically included in the LCA.
- ✓ SB1HV has specified that if existing buildings already have Green certification, they are only eligible for Green Loans if they undertake projects to further improve energy efficiency or emissions reductions.



energy storage units, high efficiency micro CHP plant, 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, energy services provided by energy service companies)

\* 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.

If the energy label certification is updated within the period of this Green Framework, SB1HV will defer to the new definition.

- ✓ SB1HV has informed us that buildings heated by fossil fuels are specifically excluded.
- ✓ Emissions arising from the value chain may be significant but are currently not included in emissions reductions targets. This is partly mitigated through the use of LCAs for new builds, which focuses on energy or greenhouse gas emissions and includes materials sourcing.

Renewable Energy



**Renewable energy:** Projects that have received Enova support, or:

1. Increased electrical or thermal energy production from renewable energy sources such as solar, wind, geothermal, tidal, or hydro (power density above 5W/m<sup>2</sup>), or bioenergy for smaller systems (E.g., 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

**Dark Green**

- ✓ Bioenergy projects should be aware of the environmental/ sustainability impact of sourcing raw materials, and risks of methane leakage.
- ✓ SB1HV has informed us that only locally sourced biomass feedstocks e.g., food waste, forestry materials and agricultural residues will be eligible. Livestock manure is excluded.
- ✓ There is no limitation on the size of the projects, however SB1HV expects they will be small given the profile of SB1HV’s clients.
- ✓ For projects requiring construction, LCAs will consider emissions intensity and resilience of materials and equipment used.
- ✓ SB1HV has informed us that projects on peat marshes will not be eligible.



- ✓ Transmission lines in Norway could provide renewable energy to Norwegian oil and gas fields. SB1HV excludes the oil and gas industry from its green bond framework.

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Clean Transportation



**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.

**Dark Green**

- ✓ Both biodiesel and bio-ethanol cars are eligible for business loans but not private loans, consistent with Enova requirements.
- ✓ It will be important to ensure biofuel is responsibly sourced and transported. SB1HV mitigates this through their incorporation of the RBS standard for sustainable agriculture in biofuels into existing credit risk decision processes for loans targeting clean transportation.
- ✓ Biofuels will be sourced from the Norwegian market.
- ✓ SB1HV has further specified all eligible projects must be 100% non-fossil fuel.
- ✓ The production of materials for supporting infrastructure like batteries must be based on responsibly sourced materials. This can also be mitigated through rigorous life-cycle analyses.

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Pollution prevention and control



**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.

**Medium Green**

- ✓ SB1HV is placing an emphasis on increasing reuse and recycling rate of plastic and reducing the amount of waste being burnt.
- ✓ Waste sorting solutions must place an emphasis on effective sorting and avoidance of mixing waste fractions, which could lead to pollution and/or mishandling of waste.



- ✓ If waste collection is carried out by trucks, vehicles will adhere to clean transportation standards.
- ✓ Waste management including waste-to-energy may incentivize the production of waste.
- ✓ Waste-to-energy solutions will exclude fossil-fuel related activities e.g., the use of fossil fuels to start the incineration. However, SB1HV informed us that while this is not the intention plastics could also be incinerated.
- ✓ Fossil fuel trucks or other fossil fuel infrastructure will not be financed.
- ✓ SB1HV considers rebound effects in the life-cycle analysis and requires that the recycling percentage is improved.

Sustainable water and wastewater management



**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.

**Dark Green**

- ✓ Flood mitigation and expanding sustainable drainage systems are a key aspect of climate resilience in the Hallingdal and Valdres region, especially as precipitation levels and risks for flooding in Norway increase due to climate change.
- ✓ Environmental concerns include potential leakage and pollution to local water sources from treatment plants. Regular environmental monitoring and maintenance should be conducted to mitigate these impacts.
- ✓ Fossil fuel-powered wastewater treatment plants will be excluded.

Environmentally sustainable management of living natural resources and land use

**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 standards such as 'Norsk PEFC Skogstandard' or similar.

**Dark Green**

- ✓ This includes projects that lead to more sustainable forestry management, emissions reductions from afforestation.
- ✓ The Norwegian PEFC Standard is a stringent all-encompassing



standard that includes measures to promote biodiversity and conservation of old growth trees, thresholds for sustainable logging, as well as regulations to reduce impacts of transport routes on local ecosystems.

- ✓ Vehicles for transporting logs may be powered by fossil fuels, and will therefore be excluded.
- ✓ New fossil-fuel powered machinery for forestry will be excluded.

Table 1. Eligible project categories

## Background

In February 2020, Norway released updated targets for 2030 to cut emissions by 50-55% from 1990 levels<sup>1</sup>, and has outlined necessary steps to achieve this through the 'Klimakur 2030' document.<sup>2</sup> This document covers targets from the energy, land use, industrial processes and product use, agriculture, land-use change and forestry, and waste sectors. Norway is projected to miss its 2020 emissions reductions target by around 4.5 million tCO<sub>2</sub>e, and needs fast action to reach the new 2030 goal.

Emissions reductions measures within road transport will make up about one-third of the total Norwegian non-ETS emissions reductions between 2021-2030. This includes the full electrification of personal vehicles and city buses by 2025, the transformation of 50% of the truck fleet being fueled by hydrogen or electricity, the increased use of biofuel for road transport, as well as improved logistics for trucks. Concurrent investments in charging infrastructure and battery technology for these vehicles are also necessary, as well as considerations for construction materials, operations and maintenance of road and rail infrastructure.<sup>3</sup>

Norway sees forestry as an effective way to reduce emissions through carbon capture, and requires a focus on carbon capture throughout the whole forestry production value chain. Nitrogen fertilization, increased forest density, and breeding new forest plants ('skogplanteforedling') are all valuable measures, although it will be important to always consider biodiversity and ecosystem impacts, such as those covered by the Norwegian PEFC regulation. It is expected that the forestry sector will play a role in providing biofuel in other sectors, which will contribute to reducing emissions in those sectors, but increasing emissions in the forestry sector.

The Klimakur 2030 document further mentions the need for energy efficiency measures in residential housing, city planning to increase access to public transport as well as switching heating for houses to renewable energy. The energy efficiency of buildings is dependent on multiple factors including increasing affluence and expectations of larger living areas, growth in population and unpredictability of weather, and greater appliance ownership and use.<sup>4</sup> For example, large cabins in the mountains that have energy-efficient appliances installed may not be aligned

<sup>1</sup> <https://www.regjeringen.no/no/aktuelt/norge-forsterker-klimamalet-for-2030-til-minst-50-prosent-og-opp-mot-55-prosent/id2689679/>

<sup>2</sup> <https://www.miljodirektoratet.no/globalassets/publikasjoner/m1625/m1625.pdf>

<sup>3</sup> <https://energiogklima.no/kommentar/transport-klimakur-rapporten-lite-relevant-for-nokkelsektor/>

<sup>4</sup> <https://www.iea.org/fuels-and-technologies/building-envelopes>



with climate goals, as they still lead to an increase in energy demand for heating, which is the main energy use for buildings, and require individual means of transportation. All of these factors should, therefore, be considered in the project selection process. Voluntary environmental certifications such as LEED and BREEAM or equivalents measure or estimate the environmental footprint of buildings and raise awareness of environmental issues. These points-based certifications, however, fall short of guaranteeing a low-climate impact building, as they may not ensure compliance with all relevant factors e.g., energy efficiency, access to public transport, climate resilience, sustainable building materials. CICERO Shades of Green assesses all of these factors when evaluating the climate impact of buildings.

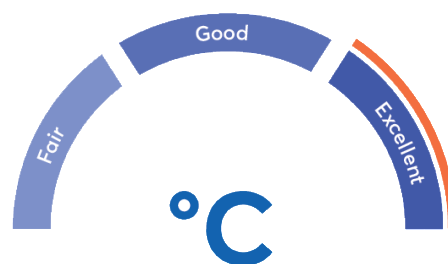
Norway's electricity supply is primarily composed of pump and storage hydropower (98%), with some natural gas. Power demand is estimated to increase by 5.8TWh to account for the electrification of many sectors towards 2030. In 2018, Norway produced 147 TWh of electricity and total consumption amongst all sectors was 136 TWh, while in 2030, it is expected consumption will increase to 159 TWh. Taking into account expansions in generation capacity from e.g., wind and hydropower, this will be well within Norway's expected generation capacity of 174 TWh. Electricity generation is expected to increase until 2022 due to investments in offshore wind power. This additional renewable energy capacity contributes to greater grid decentralization and localization, which enhances grid flexibility and resilience.

### Governance Assessment

Four aspects are studied when assessing SB1HV'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.

SB1HV has clear environmental goals and demonstrated history with long-term emissions reduction strategies. They report on Scope 1, 2 and 3 emissions, with plans to also expand this to reporting on emissions from lending. They have implemented policies at all levels of their activities, including in office procurement and work travel policies to reduce their emissions. They have not yet implemented the TCFD recommendations, but they will be included for the first time in the 2020 period, and will be used to inform the bank's 2021-2023 strategy. There is good environmental competence in the selection process and the 'sustainability-responsible individual' has veto power and is always consulted on projects. Rebound effects and LCAs are considered, and SB1HV is working on also incorporating sector-based ESG risk evaluations. However, the process for conducting LCAs could be more streamlined for all eligible categories – there is established methodology for some categories (e.g., green buildings) but not for others (e.g., renewable energy). SB1HV provides a clear, detailed template for borrowers to complete self-evaluations of their own climate risk and climate impacts, which also encourages the development of long term strategies. The selection criteria are aligned with the EU Taxonomy where relevant and feasible. SB1HV conducts extensive reporting on numerous relevant metrics within both allocation and impact reporting, which provide a good indication of the projects' contributions towards climate change mitigation and climate resilience.

The overall assessment of SB1HV's governance structure and processes gives it a rating of **Excellent**. To further improve, SB1HV could integrate fully life-cycle assessments and climate scenario analysis into their selection process.





## EU Taxonomy

In 2020, the EU Taxonomy was released in a multi-lateral effort to standardise thresholds and metrics to aid the green transition. The Taxonomy provides signposting for investors and bond issuers to aid in their decision-making and project selection processes. Based on relevance and feasibility, SB1HV has chosen to align with the EU Taxonomy on the following categories: Green Buildings, specifically ‘Construction of new buildings’; Renewable Energy, specifically ‘Storage of electricity’, ‘Storage of thermal energy’, ‘Storage of hydrogen’, and ‘Transmission and distribution of electricity’; and Pollution Prevention and Control, specifically ‘Separate collection and transport of non-hazardous waste in source segregated fractions’.

The ‘New Buildings’ category includes thresholds aligned with the EU taxonomy, which requires primary energy demand must be at least 20% lower than national regulations (TEK-17). SB1HV does not plan to align with the EU Taxonomy for its two renovations categories, however it has stated that buildings are only eligible if they lead to an upgrading of the energy label to the level above national TEK standards for the relevant time period.

All renewable energy projects financed under the framework will be eligible under the EU Taxonomy criteria. SB1HV applies “different thresholds” than the EU Taxonomy for renewable energy production, while all storage (of electricity, thermal energy, and hydrogen) as well as transmission and distribution of electricity will aim to be fully aligned with the EU Taxonomy. All storage facilities are eligible, subject to regular review (although hydropower pumped storage should comply with ‘Electricity from Hydropower’). Hydrogen storage is eligible if used to store taxonomy-eligible hydrogen. Transmission infrastructure is eligible if on a trajectory towards full decarbonization, and not used for transporting electricity with an emissions intensity greater than 100gCO<sub>2</sub>/kWh. In Norway, this could potentially without further screening include electrifying oil and gas production, however SB1HV has excluded the oil and gas industry from financings.

The EU Taxonomy category ‘Separate collection and transport of non-hazardous waste in source segregated fractions’ is aimed at reducing net GHG emissions while promoting circular economy and reuse and/or recycling of materials. The Taxonomy applies no threshold for this category, however, it requires that waste must be separately collected specifically for the aim of preparing for reuse and/or recycling.

The EU Taxonomy also considers Do No Significant Harm (DNSH) criteria within five categories (which may or may not always be relevant): climate change adaptation, water, circular economy, pollution and ecosystems. Some examples of these considerations include ensuring at least 80% of non-hazardous construction and demolition waste from buildings are prepared for re-use or recycling, ensuring all water appliances are in the top two classes for water consumption in the EU Water Label, as well as ensuring construction is not situated on protected natural areas. SB1HV has not yet incorporated the ‘Do No Significant Harm’ approach, but has provisionally “presumed that the Eligible Assets comply with relevant Norwegian legislation which provides strong labor and environmental protection”. CICERO Green would suggest that SB1HV cross-examines the various recommendations for DNSH to confirm all considerations are taken into account. See the Taxonomy document for further details<sup>5</sup>.

## Strengths

It is a strength that SB1HV exhibits strong climate goals and reporting on emissions from its activities, which will soon also include emissions from lending. The bank is reducing emissions and environmental impacts at all levels of its operations. SB1HV has clear environmental competence and clear demonstrated history on pioneering environmentally-oriented strategies. It was the first bank in Norway to offer a green product (the ‘Miljølån’) in 2015 and strives to hold the companies and clients it works with accountable. They have a clear strategy to increase

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<sup>5</sup> [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf)



their lending towards green projects, through their seven available green products. They are working on incorporating the TCFD recommendations for climate risk considerations into their 2021-2023 strategy, by anchoring them in specific goals and targets. A clear strength is the requirement that all borrowers report on their climate risk and long-term strategies to address these risks before receiving loans from the bank.

For the most part, the eligible project categories are clear and detailed, which allows for consistent decision-making in the project selection process. The sustainability-responsible individual is always consulted and given veto power for green projects. Additionally, the bank considers rebound effects and incorporates LCAs in their decision-making.

Reporting is rigorous and facilitates the participation in impact reporting of private borrowers, as the bank itself conducts the reporting for these clients. Meanwhile, business borrowers do the reporting themselves, as they are much more likely to be equipped with processes to be able to conduct the reporting.

It is a strength that SB1HV uses a project's receipt of Enova funding as an eligibility criterion. Enova is a reputable state-owned enterprise that conducts sound environmental analysis before providing funding. SB1HV can therefore be confident these projects contribute to reducing greenhouse gas emissions and/or contribute to innovation within energy and climate technologies.

It is commendable that SB1HV has tailored its framework to make the categories more applicable for its customers. The bank has included multiple thresholds from, e.g., the EU Taxonomy, Enova, FSC, and PEFC. They have also modified these thresholds to allow for the smaller scale of its customer base. The bank also specifically included the tourism and agriculture sectors, which are important in the Hallingdal and Valdres region. These measures will allow the bank to have high impact.

Although the points-based systems of the LEED 'Gold' and BREEM 'Excellent' standards included in the framework fall short of fully guaranteeing an environmentally-friendly building, SB1HV mitigates this by additionally requiring that buildings have either received Enova support or are 20% more efficient than national standards such as TEK-17 (which is aligned with the EU Taxonomy requirements). Indeed, SB1HV requires that in order to be eligible for funding, all buildings must be upgraded to above national TEK standards for the relevant time period. Houses built before 2010 will require upgrading to Energy label C (TEK-10 aligned), houses built between 2010-2016 will require upgrading to level B (TEK-17 aligned) and buildings built after 2017, will require level A, which is above TEK-17. This sliding scale of eligibility for differing time periods encourages the inclusion of older buildings in renovations and energy efficiency improvements.

## Weaknesses

CICERO Green sees no material weaknesses in SB1HV's Green Bond Framework.

## Pitfalls

While SB1HV has informed us that they take into account life cycle considerations and rebound effects, they note that it is relatively difficult to conduct LCAs for certain sectors. Within renewable energy, the EU Taxonomy derogates GHG LCAs and PCF assessments, however steps should be taken where possible to ensure sustainable and responsible sourcing of materials. This is also relevant for the clean transportation sector, which relies on battery technology where the sourcing of materials may be emissions intensive and controversial. LCA methodology is more established for the building sector, where LCAs are required for new builds and focus either on energy or on greenhouse gas emissions (in accordance with the Norwegian standard methodology), although we note this does not include climate resilience considerations. LCAs are important to consider in this framework





especially within the context of the multiple thresholds included in the Buildings category. In the absence of life-cycle assessments, there is a risk that renewable energy installations on buildings to reduce energy demand are disproportionately favored over energy efficiency measures in buildings to reduce power output requirements. SB1HV should be aware of these discrepancies and ensure measures are taken to account for full life cycle analyses.

Additionally, beyond the LCA for 'Green Buildings', SB1HV relies on the LEED and BREEM certifications to account for further environmental factors. These however do not fully guarantee an environmentally-friendly building and do not adequately take into account climate resilience considerations.

The 'Green Buildings' category in the framework generally reflects a good level of ambition and is better than national building standards for all building categories. However, it still opens the possibility for projects that are not necessarily aligned with climate goals, e.g., remote large cabins in the mountains built in 2009 with several parking spots and high heating demand due to the large living area, that might be exposed to future climate risks but that could still receive financing to upgrade to energy level C (2010 standard).

Enova projects may include associations with the oil and gas industry, which SB1HV has specifically excluded from its framework. SB1HV should be aware of these differences and conduct additional screening before assigning automatic eligibility to all Enova projects.

Efficiency improvements may lead to rebound effects, as when the cost of an activity is reduced there will be incentives to do more of the same activity. SB1HV has stated they are aware of these effects. CICERO Green suggests to possibly avoid green bond funding of projects where the risk of rebound effects is particularly high.

SB1HV has committed to alignment with the EU Taxonomy for four of its project categories. This requires implementation of the Do-No-Significant-Harm recommendations, for which SB1HV is relying on Norwegian standards and regulations, which they consider to be equivalently stringent. However, we note the national regulations may not take all factors adequately into account and would therefore recommend that SB1HV cross-examines the various recommendations for DNSH to confirm all considerations are taken into account.



# Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	SB1HV Green Finance Framework	SpareBank 1's framework for green finance instruments
2	Årsrapport 2019. SpareBank1 Hallingdal Valdres	Annual report from 2019.
3	SpareBank1 Hallingdal Valdres. «Våre prinsipper for miljø, etikk, samfunnsansvar within SB1HV og bærekraft»	Sustainability document for guiding principles
4	Årsrapport 2018. SpareBank 1 Hallingdal Valdres	Annual report 2018.
5	Miljøfyrtårn rapport. 2019	Certification for "Eco-Lighthouse" criteria
6	SB1 Retningslinjer for bærekraft i innkjøp	Guidelines for sustainable procurement
7	Vurdering av selskapets klimarisiko	Self-evaluation form of climate risk for companies
8	Grønt næringslån – Søknadsskjema	Application form for green business loans
9	SpareBank 1 Hallingdal Valdres. Transport reisepolicy 2019.	Internal travel policy and guidelines for SB1HV employees.
10	Innkjøpsrutine. SpareBank 1 Hallingdal Valdres.	Breakdown of guidelines for procurement for each department, list of approved suppliers.
11	SB1HV 2020: Delårsregnskap 1.Kvartal	Quarterly report for the 1 <sup>st</sup> quarter in 2020. Details on the green balance located on p. 9-10.



## Appendix 2: About CICERO Shades of Green

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

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

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

