

# SPAREBANK 1 BOLIGKREDITT GREEN BOND

## DNV GL ELIGIBILITY ASSESSMENT

### Scope and Objectives

SpareBank 1 Boligkreditt AS (henceforth referred to as "SpaBol") is a Norwegian covered bond issuer jointly owned by the saving banks working closely together under the SpareBank 1 brand. The cover pool consists solely of Norwegian residential mortgages originated by the SpareBank 1 parent banks<sup>1</sup>.

SpaBol is intending to issue a Green Bond to finance & refinance mortgages for energy efficient residential properties with lower energy needs and consumption (henceforth referred to as "the Bond").

DNV GL Business Assurance Services Limited (henceforth referred to as "DNV GL") has been commissioned by SpaBol to provide a Green Bond eligibility assessment on the SpaBol Green Bond. Our methodology to achieve this is described under 'Work Undertaken' below. We were not commissioned to provide independent assurance or other audit activities.

No assurance is provided regarding the financial performance of the Bond, the value of any investments in the Bond, or the long term environmental benefits of the transaction. Our objective has been to provide an assessment that the Bond has met the criteria established on the basis set out below.

### Responsibilities of the Management of SpaBol and DNV GL

The management of SpaBol has provided the information and data used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform SpaBol management and other interested stakeholders in the Bond as to whether the established criteria have been met, based on the information provided to us. In our work we have relied on the information and the facts presented to us by SpaBol. DNV GL is not responsible for any aspect of the projects or assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV GL shall not be held liable if any of the information or data provided by SpaBol management and used as a basis for this assessment were not correct or complete.

### Basis of DNV GL's opinion

We have adapted our green bond eligibility assessment methodology to create a SpaBol specific Green Bond Eligibility Assessment Protocol (henceforth referred to as "Protocol") - see Schedule 2. Our Protocol includes a set of suitable criteria that can be used to underpin DNV GL's opinion.

<sup>1</sup> In addition to residential Norwegian mortgages, the cover pool also contains some liquid assets as per bank regulation for mitigation of liquidity / refinancing risk.

As per our Protocol, the criteria against which the Bond has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a green bond must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a green bond should outline the process it follows when determining eligibility of an investment using Green Bond proceeds, and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a green bond should be tracked within the issuing organization, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond investors should be made of the use of bond proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

## Work undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by SpaBol in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a SpaBol specific Protocol, adapted to the purpose of the Bond, as described above and in Schedule 2 to this Assessment;
  - Assessment of documentary evidence provided by SpaBol on the Bond and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
  - Discussions with SpaBol management, and review of relevant documentation and evidence related to the criteria of the Protocol;
  - Documentation of findings against each element of the criteria. Our opinion as detailed below is a summary of these findings.
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## Findings and DNV GL's opinion

DNV GL's findings are listed below:

### **1. Principle One: Use of Proceeds.**

SpaBol intends to use the proceeds to finance and refinance mortgages for energy efficient residential properties with lower energy needs and consumption. The SpaBol Green Bond Framework presents the criteria used to define the appropriate use of proceeds. For this inaugural Bond, SpaBol intends to use the proceeds to refinance projects presented in Schedule 1.

DNV GL concludes that these projects fall within the defined category of green buildings (which meet regional, national or internationally recognised standards or certifications) of the Green Bond Principles 2017 and within the criteria set out in the SpaBol Green Bond Framework defining them as Eligible Green Projects.

### **2. Principle Two: Process for Project Evaluation and Selection.**

DNV GL can confirm that potential Eligible Green Projects are reviewed and approved by SpaBol's Green Bond Committee. The Committee will oversee the process for evaluation and selection of residential mortgage loans which meet the eligibility criteria.

DNV GL has reviewed the evidence and can confirm that the Eligible Green Loan Portfolio and framework for loan selection meets the eligibility criteria defined by SpaBol in the Bond documentation, including the SpaBol Green Bond Framework. SpaBol has defined the process by which it will allocate funds to Eligible Green Loan Portfolio.

### **3. Principle Three: Management of Proceeds.**

DNV GL has reviewed evidence showing how SpaBol will appropriately manage the Green Bond on a portfolio approach from the issuance of the Bond through to allocation to the Eligible Green Loan Portfolio. Where proceeds cannot be immediately allocated to the Eligible Green Loan Portfolio, the funds will be placed in money market instruments. DNV GL can confirm SpaBol has committed to ensuring that its outstanding balance of Eligible Green Loans always exceeds the total balance of all outstanding Green Bonds, and that DNV GL has reviewed evidence that the total amount of eligible assets is in excess for NOK 21 billion.

### **4. Principle Four: Reporting.**

DNV GL can confirm SpaBol has committed annually, until the proceeds have been fully allocated, to report on the allocation of proceeds of the Green Bond on an annual basis via the SpareBank 1 Boligkreditt website. They will also provide impact reporting on the Use of Proceeds via the website through the following metrics; estimated ex-ante annual energy consumption in kWh/m<sup>2</sup> or energy savings in MWh, estimated annual GHG emissions reduced/avoided in tons of CO<sub>2</sub> equivalent, where data is available.

On the basis of the information provided by SpaBol and the work undertaken, it is DNV GL's opinion that the Bond meets the criteria established in the Protocol and that it is aligned with the stated definition of green bonds within the Green Bond Principles.

**for DNV GL Business Assurance Services UK Limited**

London, 11<sup>th</sup> January 2018

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**About DNV GL**

Driven by our purpose of safeguarding life, property and the environment, DNV GL enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

## 1 SCHEDULE 1: DESCRIPTION OF CATEGORIES/ASSETS TO BE FINANCED THROUGH THE BOND

Eligible Green Categories Defined by SpaBol Green Bond Framework	Selection criteria
New residential buildings in Norway (built after 2009)	New or existing Norwegian residential buildings that comply with the Norwegian building codes of 2007 (TEK07), 2010 (TEK10) or 2017 (TEK17).
Residential buildings in Norway built before 2009	Existing Norwegian residential buildings built using older building codes than TEK07 with EPC-labels A, B and C. These buildings may be identified in data from the Energy Performance Certificate (EPC) database
Refurbished Residential buildings in Norway with an improved energy efficiency of 30%	<p>One of two criteria below must be met:</p> <ul style="list-style-type: none"> <li data-bbox="1189 978 1984 1102"><i>i.</i> Refurbished Norwegian residential buildings with at least two steps of improvement in energy label compared to the calculated label based on building code in the year of construction.</li> <li data-bbox="1189 1110 1984 1265"><i>ii.</i> Refurbished Norwegian residential buildings with at least a 30% improvement in energy efficiency measured in specific energy, kWh/m<sup>2</sup>, compared to the calculated label based on building code in the year of construction.</li> </ul>

## SCHEDULE 2: SPABOL-SPECIFIC GREEN BOND ELIGIBILITY ASSESSMENT PROTOCOL

### 1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1a	Type of bond	<p>The bond must fall in one of the following categories, as defined by the Green Bond Principles:</p> <ul style="list-style-type: none"> <li>• Standard Green Use of Proceeds Bond</li> <li>• Green Revenue Bond</li> <li>• Green Project Bond</li> <li>• Green Securitized Bond</li> </ul>	<p>In addition to reviewing the evidence below, we had several detailed discussions with SpaBol.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• SpaBol Green Bond Term Sheet</li> <li>• Spabol Green Bond Framework, January 2018</li> </ul>	<p>DNV GL can confirm that the SpaBol Green Bond falls within the category of a Green Use of Proceeds Bond.</p>
1b	Green Project Categories	<p>The cornerstone of a Green Bond is the utilization of the proceeds of the bond for Green Projects, which should be appropriately described in the legal documentation for the security.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with SpaBol.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• SpaBol Green Bond Term Sheet</li> <li>• Spabol Green Bond Framework, January 2018</li> <li>• Green Bond Investor Roadshow Presentation</li> </ul>	<p>DNV GL concludes that the legal documentation confirms the utilisation of proceeds is appropriately described.</p>
1c	Environmental benefits	<p>All designated Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with SpaBol.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• SpaBol Green Bond Term Sheet</li> <li>• Spabol Green Bond Framework, January 2018</li> <li>• MultiConsult Green Bond Report</li> </ul>	<p>The evidence reviewed gives DNV GL the opinion that the designated Eligible Green Loans provide clear environmentally sustainable benefits.</p>

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
2a	Investment-decision process	<p>The issuer of a Green Bond should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds. This includes, without limitation:</p> <ul style="list-style-type: none"> <li>• The environmental sustainability objectives</li> <li>• The process by which the issuer determines how the Projects fit within the eligible Green Projects categories identified in the Green Bond Principles;</li> <li>• The related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material environmental and social risks associated with the Projects.</li> </ul>	<p>In addition to reviewing the evidence below, we had several detailed discussions with SpaBol.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• SpaBol Green Bond Term Sheet</li> <li>• Spabol Green Bond Framework, January 2018</li> </ul>	<p>DNV GL has reviewed the evidence and can confirm that SpaBol has defined the process by which it will allocate funds to Eligible Green Loans and described the key merits used as well as the governance level responsible for selecting projects.</p>

3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3a	Tracking procedure	The net proceeds of the Green Bond, or an amount equal to these net proceeds, should be credited to a sub-account, moved to a sub- portfolio or otherwise tracked by the Issuer in an appropriate manner, and attested to by the issuer in a a formal internal process linked to the Issuer’s lending and investment operations for Green Projects.	<p>In addition to reviewing the evidence below, we had several detailed discussions with SpaBol.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• SpaBol Green Bond Term Sheet</li> <li>• Spabol Green Bond Framework, January 2018</li> </ul>	DNV GL found that the SpaBol Green Bond will be tracked in an appropriate manner and attested to by a formal internal process.
3b	Tracking procedure	So long as the Green Bond is outstanding, the balance of the tracked proceeds should be periodically adjusted to match allocations to eligible Green Projects made during that period.	<p>In addition to reviewing the evidence below, we had several detailed discussions with SpaBol.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• SpaBol Green Bond Term Sheet</li> <li>• Spabol Green Bond Framework, January 2018</li> </ul>	DNV GL concludes that there is a clear process in place for the tracking of the balance taking into account disbursements.



Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3c	Temporary holdings	Pending such investments or disbursements to eligible Green Projects, the issuer should make known to investors the intended types of temporary placement for the balance of unallocated proceeds.	In addition to reviewing the evidence below, we had several detailed discussions with SpaBol.  Evidence reviewed: <ul style="list-style-type: none"> <li>SpaBol Green Bond Term Sheet</li> <li>SpaBol Green Bond Framework, January 2018</li> </ul>	DNV GL conclude that SpaBol has made clear how it will manage any unallocated proceeds.
3d	Over-collateralisation	n/a	In addition to reviewing the evidence below, we had several detailed discussions with SpaBol.  Evidence reviewed: <ul style="list-style-type: none"> <li>SpaBol Green Bond Term Sheet</li> <li>SpaBol Green Bond Framework, January 2018</li> </ul>	DNV GL conclude that SpaBol has committed to maintain collateralisation of the Eligible Green Loan portfolio in excess of the Green Bond proceeds. DNV GL has reviewed evidence that the total amount of eligible assets is in excess of NOK 21 billion.

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
4a	Periodical reporting	<p>In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and as necessary thereafter in the event of material developments. This should include a list of the Projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the GBP recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with SpaBol.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• SpaBol Green Bond Term Sheet</li> <li>• Spabol Green Bond Framework, January 2018</li> </ul>	<p>DNV GL can confirm SpaBol has committed annually, until the maturity of the Bond, to provide investors with information on the allocation of proceeds and the environmental impact of the Eligible Green Loans.</p> <p>Reporting will be via SpaBol’s website and will include:</p> <ul style="list-style-type: none"> <li>• the total amount of proceeds allocated to eligible loans;</li> <li>• the number of eligible loans;</li> <li>• the balance of unallocated proceeds or the amount or the percentage of new financing and refinancing;</li> <li>• estimated ex-ante annual energy consumption in kWh/m2 or energy savings in MWh; and</li> <li>• estimated annual GHG emissions reduced/avoided in tons of CO2 equivalent.</li> </ul>