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Second Party Opinion

Jaeren Sparebank Green Bond Framework

June 17, 2024

Location: Norway **Sector:** Bank

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Alignment With Principles

Aligned = ✓ Conceptually aligned = o Not aligned = ×

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

See Alignment Assessment for more detail.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Strengths

Loans for ownership and renovation of green buildings contribute to the transition to a low-carbon society. High energy performance of existing buildings plays a vital role in this transition.

Weaknesses

Eligibility requirements for green buildings do not exceed the regulatory minimum, except for new construction or buildings completed after 2021. To qualify for financing, buildings must demonstrate energy efficiency relative to existing buildings in Norway. However, these criteria do not represent substantial progress toward a low-carbon, climate-resilient future.

Proceeds may be used to finance the conversion of pig farms to specific pathogen-free (SPF) breeding; but funding of highly emissions intensive animals, such as ruminants isn't excluded. Pig farming emits less emissions than cattle, sheep. If this breeding method were applied to ruminants, the climate benefits could in our view be largely outweighed by high emission factors. That said, we view the possibility of such application as limited in the foreseeable future.

Areas to watch

The conversion of pig farms to SPF breeding entails climate risks and could lead to an increase in herd size. In Norway, this may result in pigs with improved health, thereby reducing feed consumption and associated emissions. However, agriculture is exposed to significant climate and environmental risks due to land use change, agri-chemicals, and water. The issuer has not made a commitment to prevent funding the increase of herd sizes.

Jaeren Sparebank is yet to measure and assess its financed emissions, which we view as a highly material factor for banks. As a member of the Eika Alliance, the bank is currently working with the Alliance on developing tools for calculating these emissions.

The bank does not currently have a policy to address biodiversity risks. In particular, this relates to its financing of agricultural projects.

Eligible Green Projects Assessment Summary

Eligible projects under issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Green buildings	**Light green**
Loans to finance the ownership or renovation of residential and commercial and public buildings built before and after 2021 and renovated buildings.	

Sustainable agriculture	**Light green**
Loans to finance renewable energy projects or assets for local power production, including solar panel installations, onshore wind turbines, and waste- and bio-based bioenergy.	
Loans to finance energy efficiency, and pollution prevention and control projects, including the replacement of diesel generators, installation of central operational control systems in buildings, LED lighting, electric machinery, on-site efficiency solutions, and equipment and retrofitting to enable transition from fossil to non-fossil fuels for heating.	
Loans to finance agriculture and farming activities, including slurry/manure pits, storage, trailers and hose mechanisms for manure spreading, rainwater drainage, optimized fertilization equipment, N-sensors to measure crops' nitrogen requirements, GPS systems, breeding livestock with improved health status, and energy consumption.	

Renewable energy	**Dark green**
Loans to finance companies, projects, or assets related to the development, installation, operation, and maintenance of energy infrastructure projects and related activities, including local distribution systems connected to the Norwegian and/or European distribution system and the construction or expansion and operation of direct connections to low-carbon power generation below lifecycle emissions of 100 grams of carbon dioxide equivalent (gCO2e) per kilowatt hour (/kWh).	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Jæren Sparebank is a savings bank in Norway, with its head office in the town of Bryne. With assets of Norwegian krone (NOK) 17.4 billion (about €1.5 billion) as of Dec. 31, 2023, the bank is present in the municipalities of Klepp, Time, Hå, and Gjesdal and serves more than 32,000 customers. As of Dec. 31, 2023, Jaeren Sparebank's loan portfolio mainly comprises residential mortgage loans (65%) and the rest corporate lending, half of which is to the agriculture sector, the main industry in Norway's Jaeren region, where the bank operates. The bank is part of the Eika Alliance, a nationwide collaboration of about 50 local savings bank, and benefits from access to various products and services in areas such as insurance, money placement, financing, payment processing, and real estate brokerage, which are then passed on to its customers. Jaeren Sparebank is listed on the Oslo Stock Exchange.

Material Sustainability Factors

Climate transition risk

Banks are highly exposed to climate transition risk through their financing of economic activities that affect the environment. Banks' direct environmental impact is small compared to financed emissions and stems mainly from power consumption. Generally, policies and rules to reduce emissions could raise credit, legal, and reputational risks for banks. Positively, financing the climate transition offers a growth avenue for banks through lending and other capital market activities. In the European context, climate and environmental regulations are ambitious, and there is a strong push toward integrating sustainability considerations into the regulation of banks and financial markets.

Physical climate risk

Banks finance a wide array of business sectors that are exposed to physical climate risks. However, while climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographic location of the activities and assets they finance. Similarly, banks' physical footprint (such as branches) may also be exposed to physical risks, which could disrupt their ability to service clients in the event of a natural catastrophe. Banks may help mitigate the effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure, as well as by investing in solutions that support business continuity in exposed geographies. Key risks in Norway relate to an increase in extreme precipitation and flooding.

Biodiversity and resource use

Banks contribute to significant resource use and biodiversity impacts through the activities they fund or invest in. For example, the real estate sector--which is a major recipient of bank financing--is a large consumer of raw materials for new construction, such as steel and cement. Similarly, bank-financed agricultural activities can have material biodiversity impacts.

Access and affordability

Banks' large impact on society stems from their role in enabling access to financial services to individuals and businesses, and in ensuring the correct functioning of payment systems. Ensuring affordable access to financial services, especially to the most vulnerable members of the population, remains a challenge for the banking industry. Structural issues such as poverty, informal economy, and lack of financial literacy partly limit access to financial services. However, banks have ample opportunities to support economic development through financial inclusion, including by using new technologies.

Issuer And Context Analysis

The project categories in the green bond framework are green buildings, sustainable agriculture, and renewable energy, which address climate transition risk, one of the key sustainability factors for Jaeren Sparebank. The sustainable agriculture category includes projects related to renewable energy, energy efficiency, pollution prevention and control, and agriculture and farming activities, including breeding of livestock. The renewable energy category includes projects related to transmission and distribution of electricity network. Moreover, all three project categories are exposed to the impacts of climate change, making physical climate risk highly relevant within the framework. We also note the importance of biodiversity risks for selected project categories, especially sustainable agriculture.

Currently Jaeren Sparebank only conducts transition risk assessments for corporate customers, which represented 35% of its loan portfolio at year-end 2023. The bank's credit risk assessment process includes a review of clients' climate exposures, encompassing both transition and physical risks. We understand physical risk exposure is assessed for its entire portfolio, leveraging for instance on quarterly real estate data from Eiendomsverdi to monitor mortgage collateral. However, transition risk assessments are limited to corporate customers, which represent about 35% of total lending. Corporate customers are assessed using parameters that cover environmental and climate data points, and then classified into different risk categories. Detailed risk assessments are required for lending to high-emitting industries and in the event that initiatives are lacking, the bank may require commitment from such industries for implementing mitigation measures. Jaeren Sparebank does not have any lending exposure to the oil and gas industry.

Nonetheless, the bank's limited sustainability reporting and lack of disclosure on greenhouse gas emissions constrain our evaluation of its ability to monitor transition risks. The bank does not yet measure and report on its own or financed emissions. However, since 2022 it has achieved Eco-Lighthouse certification, a national environmental management standard recognized by the EU for sustainability in its own operations and products. Furthermore, we understand Jaeren Sparebank is currently working with the Eika Alliance to develop tools for measuring financed emissions as well as preparing for upcoming Corporate Sustainability Reporting Directive (CSRD) reporting. Furthermore, the board is directly involved in the development of the bank's sustainability strategy and the CEO is responsible for its implementation with the assistance of a sustainability committee. Jaeren Sparebank's sustainability strategy focuses on the U.N.'s Sustainable Development Goals, such as gender equality, decent work and economic growth, and sustainable cities and local communities.

Jaeren Sparebank has yet to develop a strategy to reduce biodiversity risks in its lending activity. The bank's corporate loan portfolio can potentially affect local biodiversity, in particular loans to the agriculture sector (about 18% of all loans) Although the financing of renewable energy projects introduces biodiversity risks, these are mitigated by strict regulations of The Norwegian Water Resources and Energy Directorate (NVE), which requires an environmental impact assessment for projects in the power distribution sector.

Alignment Assessment

This section provides an analysis of the framework's alignment to Green Bond Principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = o Not aligned = ×

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✓ Use of proceeds

All the framework's green project categories are assessed as green, and the issuer commits to allocating the net proceeds issued under the framework exclusively to eligible green projects. Please see the Analysis of Eligible Projects section for more information on our analysis of the environmental benefits of the expected use of proceeds. Jaeren Sparebank will allocate an amount equal to the net proceeds from instruments issued under this framework to finance or refinance loans that will support the transition toward low-carbon and climate resilient development. It will refinance loans for activities that are in line with the eligibility criteria outlined in the framework, namely green buildings, sustainable agriculture, and renewable energy. The green buildings category distinguishes between residential and commercial buildings built before and after 2021 and renovated buildings.

✓ Process for project evaluation and selection

Jaeren Sparebank has established an internal green bond committee (GBC) responsible for the selection and tracking of eligible loans as well as the definition of criteria and oversight of the financing framework. The GBC comprises members from the bank's executive management and treasury department. Loan applications undergo a credit approval process, which includes considerations related to sustainable production, human rights, and pollution of the environment; and requires loan applicants' compliance with all applicable laws and regulations. As part of this process, the bank also receives real estate physical climate risk data from Eiendomsverdi for its corporate and private portfolio. The framework states that proceeds issued will not be used to finance loans to customers engaged in fossil fuel extraction and/or energy generation; potentially environmentally damaging resource extraction; the production, research, and development of weapons and defense systems; and gambling, pornography, or tobacco. In addition, if financed activities fail to meet the criteria outlined in this framework, Jaeren Sparebank will remove them from its green loan portfolio.

✓ Management of proceeds

Jaeren Sparebank commits to allocating the net proceeds from instruments issued under its green bond framework to finance and refinance its green loan portfolio. It will track the allocation of proceeds to ensure that they finance only green loans and that the value of the green loan portfolio exceeds the total nominal amount of outstanding green bonds. If a green loan that is already financed by a green bond is redeemed, or if a loan no longer meets the criteria, it will be replaced by another eligible loan. Unallocated proceeds will be held as cash or managed according to Jaeren Sparebank's liquidity management policy, in compliance with the exclusion criteria of the framework.

✓ Reporting

The bank commits to reporting on the allocation of proceeds and the impacts of loans financed under this framework on an annual basis and until full allocation. The allocation report will include the aggregate size and share of the green loan portfolio, in line with the eligibility criteria financed by green bonds, the nominal amount of outstanding green bonds, and the net unallocated proceeds. It will also report on the aggregate environmental impacts of green loans financed by green bonds, as well as the assumptions and calculation methodologies. We view as positive that the bank's impact reporting will be in line with ICMA's Harmonized Framework for Impact Reporting.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Over the three years following the first issuance, Jaeren Sparebank expects to allocate 95% of proceeds to its green buildings project category, 2.5% to sustainable agriculture, and the remaining 2.5% to renewable energy.

The issuer expects 100% of the proceeds to be allocated to refinancing projects.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in Green Bond Framework, we assess the framework as Light green.

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Green project categories

Green buildings

Assessment	Description
Light green	Loans provided to finance ownership or renovation of buildings that meet one or more of the criteria set out below. **Residential buildings** (excluding buildings for leisure, cabins, or similar): 1) Buildings built in 2021 or later – Primary energy demand (PED) that is 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures. PED refers to the calculated amount of energy needed to meet the energy demand associated with the typical uses of a building, expressed in kWh per square meter (/m2) per year, based on the relevant national calculation methodology, and displayed on an energy performance certificate (EPC). 2) Buildings built before 2021 – EPC class A. – Buildings within the top 15% of the national stock in terms of PED, defined as buildings built according to the Norwegian building codes of 2010 (TEK10; to ensure alignment, use a conservative two-year time lag and include buildings built from 2012 onward) or 2017 (TEK17; if a new national definition of 15% is developed, TEK10 and TEK17 will be replaced with this). – Buildings built before 2012 must obtain at least EPC class B. 3) Renovated buildings – Major renovations leading to a reduction of PED of at least 30%. The initial PED and estimated improvement are based on an audit by an independent expert. The improvement results from an actual reduction of PED and achieved through a succession of measures within a maximum of three years. For the entire building to qualify after renovation, it should be expected to meet the criteria under No. 1 or No. 2 above.

Commercial and public buildings:

1) Buildings built in 2021 or later

– PED is 10% lower than the threshold set for NZEB requirements in national measures, or

– BREEAM-NOR / BREEAM In-Use of "Excellent" or better.

2) Buildings built before 2021

– EPC class A or class B, or alternatively, within the top 15% of the national building stock in terms of PED (TEK10 or TEK17), or

– BREEAM-NOR / BREEAM In-Use of "Excellent" or better

3) Renovated buildings:

– Major renovations leading to a reduction of PED of at least 30%. For the entire building to qualify after renovation, it should be expected to meet the criteria under No. 1 or No. 2 above; and

– At least 70% (by weight) of the non-hazardous construction and demolition waste generated is prepared for material recovery.

Analytical considerations

- For all buildings, adapting to physical climate risks is key to improving climate resilience. High energy performance for existing buildings and the additional need to reduce emissions associated with materials used for new construction are important aspects in the transition to a low carbon economy. Because the majority of proceeds are expected to be allocated to new and existing residential buildings, we assign a shade of Light green to the overall category.
- The issuer expects the majority of proceeds will be allocated to refinancing loans for residential buildings. With proceeds issued under this framework, Jaeren Sparebank will refinance the purchase and construction of buildings built in 2021 or later that will be significantly more energy efficient than required by Norwegian regulation. That said, the category also includes buildings built between 2012 and 2020 whose energy performance is in line with the regulatory requirements in place at the time of construction (TEK10 or TEK17). The framework does not have specific requirements beyond energy performance for residential buildings, though we note that, as part of the lending process, these may be taken into consideration. To reflect the inclusion of buildings that do not exceed regulatory energy performance requirements, we assess Jaeren Sparebank's provision of loans for existing residential buildings as Light green.
- We assign a shade of Light green to the issuer's provision of loans for the acquisition of commercial buildings built before, during and after 2021. This is because the criteria includes both buildings that will exceed, and are only in line with, regulatory requirements (TEK10 and TEK17). The framework also requires that buildings have BREEAM-NOR or BREEAM In-Use certifications of Excellent or higher. This may somewhat mitigate climate and environmental risks, depending on the version used and the points obtained during the process. BREEAM-NOR In-Use incorporates sustainability in the design phase of the building, whilst BREAAM-In Use focuses on the management of energy, water, and waste, to name a few. However, the point-based system does not guarantee the building will be low carbon, and the certifications don't require energy-efficiency gains beyond the condition that its use be monitored. Moreover, the construction of new buildings may result in significant energy use as well as construction waste. The bank expects that only a small portion of proceeds will be allocated to commercial buildings.
- Although TEK10 came into force in 2010, the criteria allow for a two-year time lag to ensure that buildings constructed as per the previous iteration of the regulation (TEK07, TEK97) are not eligible for financing unless they have an EPC with at least class B for residential buildings and class A or B for commercial buildings. The use of TEK10 and TEK17 as a proxy for the top 15% of the national building stock is based on the best currently available information, since an official definition has yet to be determined. The draft under consideration is more ambitious and requires a stricter screening process than current systems. As such, it is positive that Jaeren Sparebank commits to adopting the revised official version when it is implemented.
- Although only accounting for a small proportion of the allocation, renovating and upgrading existing properties are important in the transition to a low-carbon society. Renovations that achieve at least 30% reduction of primary energy consumption demonstrate a solid commitment and constitute a Medium green aspect within the framework. However, Jaeren Sparebank has indicated that such projects are expected to account for only a minor proportion of the allocated proceeds.

- Jaeren Sparebank evaluates the exposure to physical climate risk for residential and commercial buildings as part of its credit assessment of funding applications. This is based on a series of questions and the applicant's own assessment of its climate and sustainability risks, which allow the bank's advisors to assign a sustainability score. We note that the bank carries out an extended analysis of its property portfolio, including private markets, that considers sustainability-related topics such as physical climate risk. In 2023, the bank found that 15% of its private market portfolio is exposed to physical climate risk, although the building category with the highest level of risk was holiday homes, which are not included in the scope of this financing framework. On the other hand, 20% of its corporate mortgage portfolio is exposed to physical climate risk, with industrial customers facing greater risk than agricultural borrowers.

Sustainable agriculture

Assessment	Description
Light green	Loans provided to finance environmentally responsible agriculture projects and assets that meet one or more of the criteria set out below. Renewable energy projects and assets for local power production: – Solar power (installation of solar panels installed on roof tops or on the ground) – Wind power (onshore wind turbines installed at the farm) – Bioenergy using locally sourced residues or bio-waste as feedstock Energy efficiency and pollution prevention and control: – Replacing diesel generators with electricity from the grid – Installing central operational control systems in buildings – Replacing existing lightning with new LED lightning – Procurement of electric machinery traditionally running on fossil fuel – On-site energy efficiency solutions (e.g. waste heat recovery from non-fossil sources) – Equipment and retrofitting to enable transition from fossil to non-fossil fuels for heating purposes Agriculture and farming activities: – Roof for slurry or manure pits to prevent run-off – Storage for dry manure, trailers for manure spreading, hose mechanisms for targeted manure spreading – Ditches for drainage of rainwater – Equipment for optimized fertilization to avoid oversupply of nitrogen and run-off – N-sensors that measure and record nitrogen levels in soil, enabling guided and precise application of manure – GPS systems for tractors to enable guided soil treatment and fertilization, applying nutrients only where there is a recorded need – Breeding of livestock with improved health status and energy consumption (less feed consumption)

Analytical considerations

- According to the Norwegian National Inventory Report, agriculture accounted for 9.2% of the country's total emissions in 2020, making it the third largest contributor after energy (69.4%) and industrial processes and product use (18.7%). Reducing the direct emissions (from fertilizers and fossil fuel powered equipment) and indirect emissions generated by agricultural activities (land

use change) is an important aspect of the transition to a low-carbon future. This also depends on the mitigation of other environmental risks, namely soil and water pollution from pesticides and fertilizers, biodiversity risks, and water usage. Activities that result in increased livestock are not in line with a low-carbon future because they will lead to additional emissions and environmental risks, rather than their reduction. Therefore, to reflect these risks, we assess this category as Light green.

- We assess Jaeren Sparebank's provision of loans for solar, wind, and bioenergy projects as Light green. When viewed independently, these activities are typically assigned darker shades of green. However, given that--in this case--they will be implemented on livestock and crop farms, they represent short-term measures that fall short of being long-term solutions for a low-carbon agriculture sector. It is positive that bioenergy will be produced using locally sourced waste-based feedstocks, since this will allow for circular management of waste with lower transport emissions. It is a strength that the framework requires that solar installations on the ground not be constructed on cleared areas because this may reduce the impacts on biodiversity.
- We assign a Light green shade to the issuer's provision of loans to improve the energy efficiency and electrification of farms. These activities will reduce reliance on fossil-fuel-powered equipment and machinery, thereby contributing to the reduction of production emissions generated on farms. However, the framework does not include thresholds for efficiency gains, which limits our ability to assess the climate benefits of loans financed under this category. We view as positive that the issuer will not finance loans for fossil-fuel-powered machinery and processes.
- We consider Jaeren Sparebank's financing of loans intended for the optimization of nitrogen fertilizer use and manure management to be Light green. These projects may contribute to the reduction of the most material emissions exposures for the Norwegian agricultural sector, since livestock and fertilizers accounted for 49.5% and 36.1%, respectively, of the sector's emissions in 2020. That said, such measures are intended to be applied in crop and livestock farms that are exposed to considerable climate and environmental risks.
- We understand that Jaeren Sparebank will also provide loans for the conversion of conventional pig breeds to specific pathogen-free (SPF) breeds, where the animals' genes have been altered to remove health-compromising infectious agents. This may improve the health of the pigs, reducing their mortality and the quantity of feed they require for sustenance, thereby decreasing the greenhouse gas emissions of pig farming and the pork value chain. However, animal-based diets are not typically consistent with a low carbon and resilient future, because they have higher value chain emissions than plant-based, non-processed alternatives (such as legumes). In addition, the issuer has not made a firm commitment to limiting the increase in herd size, which may result in increased livestock emissions. We therefore consider the provision of loans for such activities to be Light green because, while this particular breed of pig may result in reduced emissions, there is obsolescence risk from the need to drastically reduce overall meat consumption to achieve the Paris Agreement's 2050 objectives.
- According to the Intergovernmental Panel on Climate Change, the emissions of intensity of pork--expressed as CO_2 equivalent per kilogram (kg) of product or protein--ranges from 4.8 kg of CO_2e to 12 kg of CO_2e per 100g of protein. This is lower than that of beef, at 17 kgCO_2e to 94 kgCO_2eq per 100g of protein; and lamb and mutton at 11 kgCO_2e to 23 kgCO_2e per 100g of protein. In Norway, the emissions intensity of pork production per kilogram carcass weight varies according to the category of pig (sows, gilts, weaners, and finishers) but, on average, about 81% of emissions come from feed, 4% from electricity used on farms and for transport, 6% from enteric methane, and 10% from methane and nitrogen oxide from manure management and storage. SPF piglets and fattening pigs require fewer feeding days and have lower feed consumption requirements per kilo of growth. A study by Norwegian swine genetics company Norsvin found that converting to SPF resulted in a 13% reduction of farm emissions. It may also reduce land used for feed production. When compared to the diets of other animals, pigs in Norway consume feed that is somewhat less exposed to biodiversity risks, since it is based primarily on grain-based concentrate and byproducts of the food industry. In addition, breeding programs and improvement in animal health have been identified as important actions to reduce non-ETS emissions (those not covered by the EU's Emission Trading Scheme) as part of the Norwegian Action Plan for 2021-2030.
- That said, despite requiring less feed, any form of animal breeding results in significant value-chain emissions and environmental risks from the use of agri-chemicals, water, land use change, and biodiversity risks from monocultures. Moreover, SPF farms are required to implement specific measures to ensure the animals live in a pathogen-free environment, including dedicated and sterile structures and health and safety mechanisms for farmers that come into contact with the pigs. This may result in increased energy and water use, as well as potential land conversion and an increased need for wastewater treatment. The OECD and the Food and Agriculture Organization expect that between 2023-2032 improvements in animal breeding, management, and technology will result in increased meat supply, especially of poultry and pork.
- We understand from the issuer that, to date, this method of reducing pig farm emissions cannot be applied to other breeds of animals but that, if it were to successfully take place, they could also be included in the scope of loans eligible for financing under this framework. Although this method requires the replacement of conventional animals with SPF breeds and, as such,

would not constitute an expansion of herds, animals such as ruminants that have higher value-chain emissions and environmental impacts than pigs may be included.

- Minimal standards for animal welfare are defined in the Norwegian Agricultural Quality System and followed by the bank's customers. For new customers, Jaeren Sparebank also organizes site inspections before granting a loan.
- As outlined in the green buildings category, the issuer conducts a review of the physical climate risk of its portfolio, using data from Eiendomsverdi that it obtains on a quarterly basis. In 2023, it found that 18% of its corporate agriculture portfolio was exposed to physical climate risk.

Renewable energy

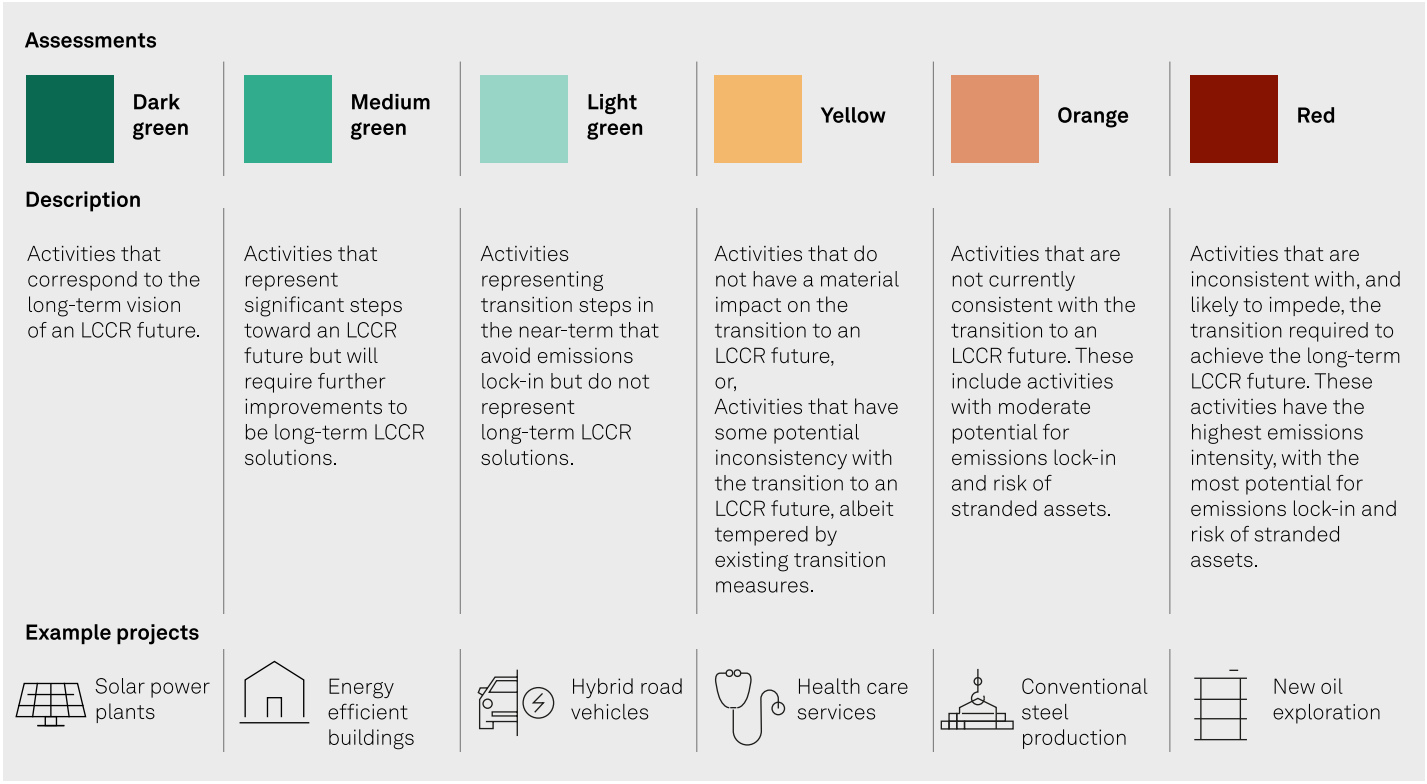
Assessment	Description
Dark green	Loans provided to finance companies involved in, or projects and assets related to, the development, installation, operation, or maintenance of energy infrastructure projects and related activities that meet the criteria below. Local power distribution networks: – The local distribution system is connected to the Norwegian and/or European power distribution system. – Construction or expansion, and operation of, a direct connection--to a substation or network--of low-carbon power generation that is below the threshold of 100 gCO2e/kWh measured on a life cycle basis.

Analytical considerations

- Renewable energy, provided the impacts on the local environment are sufficiently mitigated, is a key element in global efforts to limit global warming to well below 2 degrees Celsius. The electricity sector in Norway, which predominantly relies on hydropower, faces several challenges. The demand for electricity is expected to outpace the supply, resulting in a power deficit in a few years. According to the International Energy Agency, more electrification will be needed across sectors to meet Norway's climate targets, which will require additional renewable power generation and increased transmission capacity.
- We assess as Dark green the financing of eligible project category of supporting the transmission and distribution of electricity, given the low carbon intensity of Norway's grid, along with the contribution to Norway's climate targets and expansion of the clean energy market in the region.
- In this project category, the bank aims to finance the development, installation, operation, and maintenance of energy infrastructure projects, which would entail building new cables or expanding the network of existing transmission and distribution cables. The emission threshold stated is less than 100gCO2e/kWh measured on a life cycle basis for its transmission and distribution network. However, the cables use SF6 gas (23,500 times more potent than carbon dioxide) for insulation and carry a higher risk of leakage; this challenge is not addressed by the bank, which acts as a limitation.
- The bank has informed us that green bond proceeds will not be used to finance direct energy supplies to high-emission sectors. Despite this exclusion, electrification might be indirectly leveraged by industries that have various effects on climate (from data centers, and petroleum- and energy-intensive industries, to electric transport) considering that the region where the bank operates, Jaeren, has exposure to the oil and gas industry. Nonetheless, we see electrification as one of the most important strategies to significantly cut current emissions and align with a net-zero future.
- Eligible projects likely entail interventions into nature that could harm local biodiversity. Currently, the bank does not have any policy on biodiversity conservation. Nonetheless, the power distribution sector in Norway adheres to strict regulations imposed by NVE (the Norwegian Water Resources and Energy Directorate), which requires an environmental impact assessment for projects in the power distribution sector.
- The assets financed are exposed to physical climate risks, such as changes in precipitation patterns or strong winds. These events, which are becoming more frequent and severe, can cause network service disruptions for large populations and other

operational stoppages. However, the physical risk exposure of energy transmission and distribution facilities portfolios must adhere to strict regulations set by NVE.

S&P Global Ratings' Shades of Green



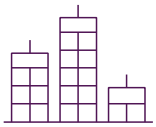
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs				
Green buildings	 **11. Sustainable cities and communities***	 **13. Climate action**	Choose a building block.	Choose a building block.	Choose a building block.
Sustainable agriculture	 **15. Life on land**	 **7. Affordable and clean energy**	 **12. Responsible consumption and production**	 **13. Climate action**	Choose a building block.
Renewable energy	 **7. Affordable and clean energy***	 **13. Climate action**	Choose a building block.	Choose a building block.	Choose a building block.

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- S&P Global Ratings ESG Materiality Maps: Banks, July 20, 2022

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