

Green Bond Framework

Kredittforeningen for Sparebanker

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Part 1- About Kredittforeningen for Sparebanker and sustainability

Kredittforeningen for Sparebanker («KfS», “we” or the “company”) was established in 2004 through a collaboration between 49 savings banks and Eiendomskreditt AS. KfS is a financial institution that issues medium- and long-term loans to savings banks and aims to contribute to reducing the banks' liquidity and refinancing risk while at the same time offering the banks more affordable borrowing. Through close cooperation with the savings banks, KfS also aims to contribute to driving forward the financing of sustainable investments in Norway. This is done by financing green projects in the local savings banks through KfS's issuance of green bonds. This way, the collaboration can contribute to more green capital flowing out to smaller players and make the Norwegian sustainable financial market bigger.

KfS approach to sustainability

As an independent and nationwide financial institution, the company has a significant social responsibility. KfS must consider the environment, climate, ethics, and social conditions in all aspects of the company's operations.

Lending is the company's core business area, and it is in this area that KfS has the best opportunity to influence in a positive direction. KfS wants to be a contributor and sparring partner for small and medium-sized savings banks, and the company aims to stimulate an increased focus on sustainability by promoting green business development and access to green capital.

KfS's work is based on the UN's six principles for sustainable banking. The focus of the sustainability work is the bank's core business within the financing of Norwegian savings banks, but all business areas in the company are included in the investment.

Sustainable Credit

KfS's lending policy is described in the Credit Handbook. The document describes general guidelines in the credit process, operational frameworks and regulations used as the basis for the company's operation. Further elaboration and details appear in KfS's Anti-Money Laundering (AML) and Know Your Customer (KYC) procedures, along with instructions for combating money laundering and terrorist financing as part of ongoing customer monitoring.

Savings banks seeking to secure a green loan must sign a cooperation agreement with KfS. This agreement outlines the responsibilities of each party regarding the green financing of projects within the individual savings bank. It mandates that any savings bank obtaining green loans from KfS commits to allocating these funds exclusively to qualified green projects as defined in this Green Bond Framework, which ensures that these projects always represent 100% of KfS green loans.

Responsible investments

The financial handbook outlines the constraints for selecting securities that can be included in the liquidity portfolio. Our exposure in the liquidity portfolio is mainly aimed at the Norwegian market and, to a large extent, towards issues of bonds with preferential rights from banks, Norwegian savings banks and municipal securities. KfS must not invest in companies that are on the exclusion list. All employees

responsible for the bank's liquidity management must be familiar with the bank's strategy for social responsibility and sustainability.

Moreover, KfS must conduct a comprehensive risk assessment to ensure that the liquidity portfolio aligns with the social responsibility- and sustainability guidelines. This risk assessment applies to the entire investment universe, considering the varying degrees of risks associated with different securities in terms of compliance with company policies.

Internal climate and environmental work

KfS was Eco-Lighthouse certified for the first time in 2020 and re-certified in 2023. This certification underscores KfS's holistic and systematic approach to improving environmental performance and reducing greenhouse gas emissions in the business. KfS remains committed to further reducing its climate and environmental footprint by facilitating environmentally friendly choices for employees.

Sustainability requirements for suppliers and partners

KfS has expectations for sustainability from its suppliers and partners. The bank engages in dialogue with suppliers and partners to establish demands when making purchases and entering agreements. KfS prioritizes partnerships with environmentally certified suppliers or those committed to upholding internationally recognized labour- and human rights standards.

Sustainability governance

KfS adheres to high ethical standards and conducts responsible business operations guided by Norwegian laws, regulations, and internal guidelines. In the day-to-day operations, social responsibility is integrated into various operational handbooks, including personnel, Health, Safety, and Environment (HSE), credit, financial, and ethical guidelines, as well as privacy and data handling protocols. KfS maintains robust procedures to detect and address any breaches of these guidelines.

The company's efforts to combat money laundering and terrorist financing adopt a risk-based, business-oriented approach, which is integral to its risk management practices. KfS complies with industry standards and continuously updates its anti-money laundering routines in accordance with new recommendations. Employee expectations are outlined in the bank's ethical guidelines.

Reporting

Social responsibility and sustainability are an integral part of the company's annual reporting. In line with this, KfS aligns itself with the following national and global initiatives:

- *Eco-Lighthouse certification*¹: In 2020, KfS was Eco-Lighthouse certified for the first time. The certification was re-confirmed in 2023. This means that KfS's environmental standards and routines have been found to be aligned with the criteria for "Banking and Finance" and

¹ Eco-Lighthouse criteria for banking and finance revised in 2019, <https://www.miljofyrtarn.no/>

"Common criteria, private and state". KfS can thus demonstrate adherence to stringent criteria encompassing environment, purchasing, energy, transport, waste, emissions and aesthetics are satisfied.

- *UNEP FI*²: KfS sustainability initiatives are grounded in the UN's six principles for sustainable banking. Value creation and business practices prioritize long-term considerations, guided by the company's own principles and internationally recognized social responsibility- and sustainability standards.
- *The Transparency Act (Åpenhetsloven)*³: KfS complies with the Norwegian Transparency Act, ensuring adherence to fundamental human rights and decent working conditions within the bank and with its business partners. The bank conducts annual due diligence and risk assessments to uphold these requirements.
- Upcoming standards: KfS is working to align its sustainability reporting with updated standards mandated by the European Union (EU) and eventually Norway. In the coming years, the bank will gradually expand its sustainability reporting to adapt to the requirements of the Corporate Sustainability Reporting Directive (CSRD)⁴ and the European Sustainability Reporting Standard (ESRS)⁵
- *UN Global Compact*⁶: KfS' Green Bond Framework is adapted to help achieve the EU's Sustainable Development Goals (SDGs). For instance, our focus on energy efficiency contributes to SDG 7 (Affordable and Clean Energy), while financing sustainable buildings aligns with SDG 11 (Sustainable Cities and Communities).

² United Nations Environment Programme Finance Initiative <https://www.unepfi.org/>

³ The Norwegian Transparency act <https://www.forbrukertilsynet.no/vi-jobber-med/apenhetsloven/dette-er-apenhetsloven>

⁴ Corporate Sustainability Reporting Directive (CSRD) Regulation published December 2022, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>

⁵ European Sustainability Reporting Standards (ESRS) Delegated Act published July 2023, <https://webgate.ec.europa.eu/regdel/#/delegatedActs/2111>

⁶ UN Global Compact Strategy published 2021, <https://unglobalcompact.org/>

Part 2 – The Green Bond Framework

KfS has established this Framework to issue green bonds that can finance existing and new loans from local savings banks for energy-efficient residential and commercial buildings (hereafter referred to as green buildings as a collective term), energy efficiency measures and renewable energy investments. With this Framework, we want to contribute to increasing liquidity in the green bond market by financing green projects in the local savings banks through KfS' green bond issuances. Through this approach, we diversify our investor base and expand the dialogue with existing investors.

This framework aligns with the International Capital Market Association (ICMA) Green Bond Principles (GBP)⁷. Instruments issued under this Framework shall be referred to as Green Bonds.

Under this Framework it will be issued Green Senior Bonds, used to finance new or existing green buildings, measures for energy efficiency and renewable energy investments that meet the requirements under the "use of funds" definitions below.

This Green Finance Framework is aligned with the core components of the GBP as well as the recommended External Review:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External Review

Loans that meet the requirements of the EU taxonomy

The EU taxonomy ('EU taxonomy') is a classification system that describes requirements for an economic activity to be considered sustainable. We expect the EU Taxonomy⁸ to become the "gold" standard for green loans in the future. This means that KfS expects the standard for what is considered green buildings to be gradually tightened and will take this into account in future renewals of the Framework. The technical screening criteria in the taxonomy refer to economic activities such as the construction of

⁷ Green Bond Principles published June 2021 (June 2022 Appendix I) is voluntary recommendations for the process around green bond issuance, written by the International Capital Markets Association (ICMA), <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

⁸ Taxonomy Climate Delegated Act published June 2021, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R2139>

new buildings, the acquisition of buildings and the renovation of buildings.

The EU Taxonomy

The EU taxonomy serves as a classification system aiding companies and investors in identifying economically sustainable activities to facilitate informed investment decisions. These activities are defined as those significantly contributing to at least one of the EU's climate and environmental objectives while not significantly detracting from these goals and meeting minimum requirements. It's important to note that the EU taxonomy is not obligatory for investors; it doesn't establish mandatory environmental performance requirements for companies or financial products. Investors retain the freedom to choose their investments. However, the expectation is that over time, the EU taxonomy will incentivize a transition towards sustainability to align with the EU's climate and environmental objectives.

How Norway defines the EU taxonomy

In Norway, aligning with the EU taxonomy presents certain challenges as it pertains to regulations that are not EEA-relevant. Norwegian entities must adhere to regulations identified by ministries, such as the marine strategy directive and associated supplementary decisions on criteria and method standards. The aim of the EU taxonomy is to establish a European framework for classifying sustainable economic activities across countries. Therefore, according to the ministries, it is advantageous if the criteria are applied uniformly. The Ministry of Local Government and District Affairs has issued guidance on energy frameworks for nearly zero-energy buildings and the calculation of primary energy needs, measured in primary energy. This guidance aids in assessing whether activities such as the construction of new buildings and the renovation of existing buildings meet the criteria outlined in the taxonomy.

For KfS to be able to say that a building complies with the EU taxonomy, the following three requirements must be met:

- 1) The activity must contribute significantly to at least one of the environmental objectives⁹
- 2) The activity must not do no significant harm (DNSM) towards any of the other environmental objectives
- 3) The activity must comply with principles of labour standards and human rights i.e. minimum safeguards

By fulfilling these criteria, KfS can report the proportion of lending that qualifies under the EU taxonomy. While a thorough assessment is conducted regarding the investment's impact on environmental goals, uncertainties exist, particularly regarding the implementation of assessments related to point 2 and a lack of associated data. Therefore, it is not recommended that green loans adhere to the EU taxonomy at this time.

1. Use of Proceeds

An amount equal to the net proceeds of any KfS' Green Bond issuance will be used to finance and/or refinance Eligible Green Assets as defined below. Tangible assets (without age restriction) and operational expenses (with a look-back period of three years) are eligible provided that they meet the eligibility criteria at the time of issuance.

⁹ The six environmental objectives of the Taxonomy are: (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control, and (6) protection and restoration of biodiversity and ecosystems.


The eligible assets supports ICMA's environmental objective for the reduction of climate change¹⁰.

Qualifying green projects

ICMA GBP Categories	Category Description	UN SDGs	EU Taxonomy
Renewable Energy	<p>Investments in Norway related to the acquisition, development, construction, expansion, maintenance and upgrading of existing facilities and technologies for renewable energy and associated infrastructure, such as:</p> <ul style="list-style-type: none"> Hydropower project finalized before 2019 that meets at least one of the following three criteria: (i) River system without an artificial reservoir; or (ii) life cycle GHG emissions from the production of electricity from hydropower < 100g CO₂ e/kWh; or (iii) The power density of power generation facilities > 5W/m² Hydropower project finalized 2019 or later that meets at least one of the following three criteria i) Run-of-river without artificial reservoir or low storage capacity; or ii) Life-cycle carbon intensity is below 50 gCO₂e/kWh; or iii) Power density is greater than 10 W/m² 		<p>EU Environmental Objective 1: Climate Change Mitigation</p> <p>Substantial contribution to Climate Change Mitigation (Article 10), including but not limited to (1.a): Generation, transmission, storage, distribution or use of renewable energy in line with Directive (EU) 2018/2001, including through the use of innovative technology with the potential for significant future savings or through the necessary reinforcement or expansion of the network</p> <p>EU Taxonomy activity:</p> <p>4.5. Electricity generation from hydropower</p>
Green buildings	<p>Loans to finance or refinance new or existing energy-efficient green buildings in Norway. Eligible green buildings must meet one or more of the following eligibility criteria:</p> <p>Buildings built ≥ 2021:</p> <ol style="list-style-type: none"> All buildings with a primary energy demand (PED) at least 10% lower than the relevant threshold set for Nearly Zero-Energy Buildings ("NZEB-10%")¹¹, such as residential-, kindergarden-, school-, nursing home-, hotel-, culture-, sport-, office-, commercial-, and light industry buildings with an "A" Energy Performance Certificate (EPC) Buildings that have received at least one or more of the following classifications <ol style="list-style-type: none"> BREEAM New Construction schemes: <ol style="list-style-type: none"> Residential: Minimum «Excellent» Commercial: Minimum «Excellent» LEED, minimum «Gold» Nordic Swan Ecolabel 		<p>EU Environmental Objective 1: Climate Change Mitigation</p> <p>Substantial contribution to Climate Change Mitigation (1.b): Improving energy efficiency in all sectors, except energy production using solid fossil fuels, and in all stages of the energy chain, to reduce primary and final energy consumption</p> <p>EU Taxonomy activity:</p> <p>7.2 Renovation of existing buildings</p> <p>7.7 Acquisition and ownership of buildings</p>

¹⁰ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Project-Mapping-June-2021-100621.pdf>

¹¹ In accordance with the EU Taxonomy Climate Delegated Act, buildings built from 1 January 2021 onwards must meet the "NZEB -10%" criterion. The Norwegian definition of NZEB were announced on 31 January 2023. ([veiledning-om-beregning-av-primarenergibehov-og-nesten-nullenergibygg.pdf \(regjeringen.no\)](#)). The NZEB-10% has been adjusted to be comparable with the Norwegian EPC-system, showing that all "A" EPCs and some "B" EPCs are within scope.

Energy efficiency	<p>Buildings built < 2021:</p> <ol style="list-style-type: none"> 1. NZEB-10% buildings as described above 2. Norway's top 15% energy efficiency buildings¹². Until the official Norwegian definition is in place to include: <ul style="list-style-type: none"> - Buildings with an "A" and "B" EPC - Residential buildings in accordance with TEK10 and TEK17 building regulations (built ≥2012]/2019) - Office, commercial and industrial buildings in accordance with TEK10 and TEK17 (built ≥2012) - Hotel and restaurant buildings in accordance with iTEK10 and TEK17 building regulations (built ≥2013) - 3. Buildings that have received at least one of the following classifications: <ol style="list-style-type: none"> i. BREEAM: <ol style="list-style-type: none"> a) New Construction: Minimum «Excellent» b) In-use asset performance: Minimum «Excellent» ii. LEED, minimum «Gold» iii. Nordic Swan Ecolabel <p>Independent of building year, data centres are only eligible if the annualized power usage effectiveness (PUE) is less than 1.5</p> <p>Renovated building with an improved energy efficiency of 30%</p> <p>Renovation costs for buildings with at least a 30% calculated improvement in energy efficiency, measured in kWh/m2.</p> <p>For the full building to qualify for financing, it should meet:</p> <ul style="list-style-type: none"> - one of the criteria under "Buildings built <2021" above; or - EPC labels of "A", "B" or "C".. 		
	<p>Loans to finance or refinance investments in measures that reduce CO2e emissions through reduced energy consumption or changing the energy source to renewable energy, such as</p> <ol style="list-style-type: none"> i. Installation, upgrading or maintenance of energy efficiency equipment such as insulation, windows and heating/ventilation equipment such as heat-pumps ii. Installation, upgrading or maintenance of energy management systems iii. Electrification of equipment iv. Installation of solar panels or other type of renewable energy sourcing 		<p>EU Environmental Objective 1: Climate Change Mitigation</p> <p>Substantial contribution to Climate Change Mitigation (1.b): Improving energy efficiency in all sectors, except energy production using solid fossil fuels, and in all stages of the energy chain, to reduce primary and final energy consumption</p> <p>EU Taxonomy activity:</p> <p>7.3. Installation, maintenance and repair of energy efficiency equipment</p>

¹² In Norway, the top 15% is at the time of writing not defined and thus the criteria for eligibility may be updated post issuance of this framework to ensure alignment with the official definition when this is made available. For residential buildings, the loan to asset ratio should not be higher than the share of floor area with an acceptable EPC level (as defined in the criteria above).

2. Process for Project Evaluation and Selection

Savings banks seeking to secure a green loan must sign a cooperation agreement with KfS. This agreement outlines the responsibilities of each party regarding the green financing of projects within the individual savings bank. It mandates that any savings bank obtaining green loans from KfS commits to allocating these funds exclusively to qualified green projects as defined in this Green Bond Framework, which ensures that these projects always represent 100% of KfS green loans. The cooperation agreement also describes that it is the savings bank's responsibility to obtain and keep documentation that the funding is earmarked for green projects in the bank and that the bank must annually submit an overview to KfS that describes the green projects that are financed with green proceeds from KfS.

Loans financed with proceeds from Green Bonds are selected by the individual savings bank on the basis that the loans meet the eligibility criteria described in this Framework. The credit committee in KfS evaluates the information from the individual savings bank against the criteria described in this Framework and approves that the loan can be included in the portfolio for green loans. The credit committee consists of the managing director and the person responsible for lending and sustainability. Decisions in the credit committee on green loans are taken unanimously. For a green loan to be granted, the loan must meet the criteria described in this Framework, as well as KfS's guidelines for credit.

Exclusions:

Under this Framework, loans shall not be granted to::

- Buildings designed for the purpose of extraction, storage, transportation or manufacture of fossil fuels
- Finances the electrification of oil and gas production, as well as improving the energy efficiency of such production
- Customers of the individual savings bank who is included in Norges Bank's list of excluded companies¹³. These companies are excluded because they produce cluster weapons, nuclear weapons, tobacco, or the production of coal or coal-based energy. In addition, the exclusion list contains companies that contribute to severe environmental damage, serious violations of individual rights in war and conflict, gross violations of human rights, other gross violations of fundamental ethical norms and gross corruption.
- Customers of the individual savings bank who operates in conflict with laws, regulations and public environmental requirements or without approved authorizations from the authorities

3. 3. Management of Proceeds

The management of the Proceeds from Green Bonds will be tracked at portfolio level. KfS will allocate the proceeds from Green Bonds to a portfolio of loans that meet the criteria for green buildings, renewable energy and measures for energy efficiency, and have been selected in accordance with the process described above. KfS will strive to achieve an allocation of the portfolio that is equal to or

¹³ Norges Bank Exclusion list: [Observation and exclusion of companies | Norges Bank Investment Management \(nbim.no\)](https://nbim.no)

greater than proceeds from the issued Green Bonds. Loans to savings banks that finance green buildings, renewable energy and measures for energy efficiency that meet the criteria will be added to or subtracted from the portfolio to the extent necessary.

On a best-efforts basis, KfS will attempt to allocate an amount equal to the net proceeds raised by the Green Bond issuance as soon as possible. However, KfS will from time to time have to hold or invest unused proceeds from issued Green Bonds until the funds are allocated to the portfolio of loans for qualified projects. In such cases, KfS will keep the proceeds in cash or invest in other liquid instruments according to the company's investment guidelines. These exclude investments as described under Exclusions in chapter 2..

4. Reporting

KfS will report the distribution of proceeds and environmental impact (impact reporting) no later than one year from the first bond issue under this Framework and then annually until full allocation. The reporting will be done at portfolio level.

Allocation reporting will include the following metrics, but is not limited to:

- The total amount divided among loans that meet the criteria
- Number of loans that meet the criteria
- The balance of undistributed funds
- The amount or percentage of new financing and refinancing
- Proportionate distribution of the amount between the various project categories

Environmental impact reporting will include the following metrics, but is not limited to:

- A description of the environmental significance of the green projects
- Number of green buildings financed
- Number of buildings with environmental certification
- Type of measures for energy efficiency that have been financed
- Reduction of energy use (MWh per year)
- GHG savings (tCO₂e)
- Capacity of renewable energy installations (MWh and/or H₂)

Both the allocation and impact reporting will be published on KfS's website.

5. External Review

Pre-issuance review

To confirm the transparency and robustness of this Framework, KfS has engaged Sustainalytics to act as an external reviewer of this Green Bond Framework. Amongst other things, it confirms the alignment of

this Framework with the latest ICMA Green Bond Principles. This Framework and the Second Party Opinion will both be publicly available on KfS' website.

Post-issuance review

To ensure transparency towards investors, lenders and stakeholders in accordance with the GBP, KfS will no later than one year from the first bond issue under this Framework and then annually until full allocation engage with an external and independent party to verify, in the form of limited assurance, the allocation of proceeds from KfS Green Bonds according to this Green Bond Framework.