ASSESSMENT
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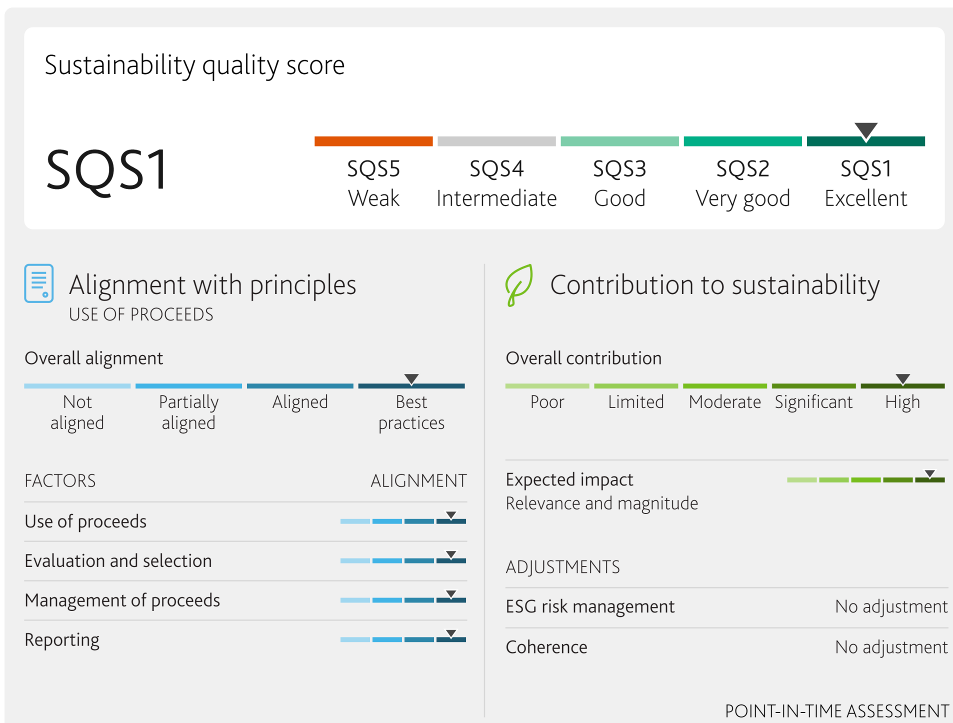
Fana Sparebank

Second Party Opinion – Green Finance Framework Assigned SQS1 Sustainability Quality Score

Summary

We have assigned an SQS1 Sustainability Quality Score (Excellent) to Fana Sparebank's green finance framework dated August 2024. The issuer has established its use-of-proceeds framework with the aim of financing projects across two eligible green categories — green buildings and renewable energy. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (including the June 2022 Appendix 1), and the issuer has also incorporated all Moody's Ratings identified best practices. The framework demonstrates a high contribution to sustainability.



Scope

We have provided a Second Party Opinion (SPO) on the green credentials of Fana Sparebank's green finance framework, including the framework's alignment with the ICMA's GBP 2021 (including the June 2022 Appendix 1). Under its use-of-proceeds framework, Fana Sparebank plans to issue green finance instruments, such as senior and covered bonds, and source funds through public deposits to finance or refinance green loans dedicated to projects across two green categories, as outlined in Appendix 2 of this report.

Our assessment is based on the last updated version of the framework received on 7 August 2024, and our opinion reflects our point-in-time assessment[1] of the details contained in this version of the framework, as well as other public and non-public information provided by the bank.

We produced this SPO based on our Framework to Provide Second Party Opinions on Sustainable Debt, published in October 2022.

Issuer profile

Fana Sparebank is a savings bank with a well-established market position in Western Norway, which provides traditional banking services to retail and corporate customers online and through its three branches in the greater Bergen region. These include deposit accounts, loans and money-transfer services. Through agreements with external suppliers, the bank also distributes insurance and other financial services. As of 30 September 2023, the bank reported consolidated assets of around NOK29 billion (€2.6 billion).

Fana Sparebank faces low environmental risks, particularly those tied to carbon transition. This is primarily attributed to the bank's loan book structure, which is mainly focused on mortgages and property management, and has limited engagement in other types of corporate lending known for higher carbon transition risk. The bank's sustainability strategy involves augmenting its own and its clients' abilities to mitigate, adapt and reduce the impact of climate change. The 2030 objectives in corporate banking predominantly focus on sustainable practices in the real estate sector, with a goal for at least half of all commercial real estate loans to support eco-friendly projects. Concurrently, the strategies in retail banking for the same timeline are largely centered around enhancing energy efficiency initiatives. From a long-term perspective, Fana Sparebank has set a goal to maintain a net-zero lending portfolio by 2050.

Strengths

» The average emissions intensity of the green buildings portfolio will align with the 1.5°C science-based pathway.

» Eligible projects target key sustainability challenges for the financial and real estate sectors by addressing improvements in energy efficiency and the avoidance of carbon emissions.

» The eligibility criteria for the financed assets follow the substantial contribution criteria for selected economic activities as laid out in the EU Taxonomy (Climate Delegated Act) for sustainable activities.

» Comprehensive and transparent project evaluation and selection processes are in place and include relevant expertise.

Challenges

» Although solar power can contribute to decarbonizing real estate, solar PV rooftop installation is not considered the most highly relevant means for mitigating climate change for the building sector, or in the Norwegian context.

Alignment with principles

Fana Sparebank's green finance framework is aligned with the four core components of the ICMA's GBP 2021 (including the June 2022 Appendix 1):

- [x] Green Bond Principles (GBP)
- [ ] Social Bond Principles (SBP)
- [ ] Green Loan Principles (GLP)
- [ ] Social Loan Principles (SLP)
- [ ] Sustainability-Linked Bond Principles (SLBP)
- [ ] Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned | Partially aligned | Aligned | **Best practices**

Clarity of the eligible categories – BEST PRACTICES

Fana Sparebank has clearly communicated the nature of expenditures for the two eligible categories. They consist of loans for the acquisition, ownership and renovation of green buildings, including green mortgages, and loans for acquiring and installing solar photovoltaic (PV) panels. Loans for both the eligible categories are (re-)financed through public deposits, senior bonds and covered bonds (green finance instruments). The eligibility criteria are also clearly defined and refer to the substantial contribution criteria for the economic activities “7.2 Renovation of existing buildings”, “7.7 Acquisition and ownership of buildings” and “7.6 Electricity generation using solar photovoltaic technology”, as described in the EU Taxonomy Climate Delegated Act for sustainable activities. In addition to abstaining from financing controversial activities, the issuer has excluded the funding of residential buildings susceptible to physical climate risk, those with a utility floor area exceeding 300 m^2, and second homes (summer cabins) from the eligible assets under this framework. The location of eligible projects is defined as within Norway.

Clarity of the environmental objectives – BEST PRACTICES

The issuer has stated that the environmental objective is climate change mitigation, which is considered relevant for both the eligible categories and coherent with recognized international standards, including the United Nations' (UN) Sustainable Development Goals (SDGs) and the EU Taxonomy's Climate Delegated Act for sustainable activities.

Clarity of the expected benefits – BEST PRACTICES

The bank has identified improvements in energy efficiency and the avoidance of greenhouse gas (GHG) emissions as relevant benefits for the eligible green categories. The benefits are clear, measurable and will be quantified in the ongoing reporting. The issuer has stated in internal documentation that the net proceeds will be fully allocated at the time of issuance, which means that there will be a 100% refinancing share. The bank does not apply a look-back period. However, there is transparency regarding the date of issuance of the green bond portfolio. As of June 2024, the average age of loans, when weighted by volume, was three years and eight months.

Best practices identified - use of proceeds

» Eligibility criteria are clearly defined for all project categories

» Objectives set are defined, relevant and coherent for all project categories

» Relevant benefits are identified for all project categories

» Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting

» Commitment to transparently disclose the share of proceeds used for refinancing where feasible

» Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection

Not aligned	Partially aligned	Aligned	Best practices

Transparency and quality of process for defining eligible projects – BEST PRACTICES
Fana Sparebank has established a clear process for evaluating and selecting eligible projects, encompassing detailed decision-making criteria, and clearly defined roles and responsibilities, all of which are formalized in its publicly available framework. The process relies on relevant internal expertise convened in the form of the Green Finance Committee, which is composed of the chief executive officer, chief financial officer, chief compliance officer, chief credit and anti-money laundering officer, heads of retail and commercial banking, and the head of sustainability. The Green Finance Committee is responsible for reviewing and validating the selection of eligible green projects based on proposals from relevant business units. The committee meets at least once a year.

The bank commits to monitoring the ongoing compliance of selected projects with eligibility and exclusion criteria specified in the framework throughout the life of any outstanding instrument issued under this framework. All committee decisions will be recorded and filed for traceability. If a loan is deemed to not meet the eligibility criteria, it will be replaced with another qualifying loan.

Environmental and social risk mitigation process – BEST PRACTICES
The issuer has established an adequate environmental and social risk identification and mitigation process to manage risks related to the eligible projects. The process is publicly disclosed in the framework and in its public annual reports. For its corporate lending portfolio, Fana Sparebank identifies ESG risks ex-ante as part of its ESG risk module. With respect to its mortgage portfolio, the bank acquires physical climate risk data specific to mortgages on a quarterly basis and also maintains service guidelines for managing vulnerable customers. The monitoring of potential ESG risks and controversies is performed as long as a financial instrument is outstanding. In the event a loan already included in the Eligible Green Loans portfolio no longer meets the criteria in this framework in the opinion of the Committee, such a loan will be removed from the Eligible Green Loans portfolio.

Best practices identified - process for project evaluation and selection

» The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise

» There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed

» The process for project evaluation and selection is traceable

» Material environmental and social risks for most project categories are identified

» Presence of corrective measures to address environmental and social risks across projects

» ESG controversies are monitored

Management of proceeds

Not aligned | Partially aligned | Aligned | Best practices

Allocation and tracking of proceeds – BEST PRACTICES
Fana Sparebank has clearly defined the process for the allocation and tracking of proceeds in the framework. The net proceeds will be held in the bank's general account and tracked accordingly. The net proceeds will be fully allocated in close proximity to any issuance. So long as there are green financial instruments outstanding the loan portfolio is expected to be inherently dynamic, as existing loans mature and new ones are included to replace them. This will be monitored annually in the allocation and impact reports. Through internal control procedures and a quarterly reporting system, the bank ensures the value of green eligible loans always surpasses the total nominal amount of outstanding green finance instruments.

Management of unallocated proceeds – BEST PRACTICES
The issuer expects the full allocation of proceeds at the time of issuance. However, should there be any unallocated proceeds, those will be held in certified green covered bonds in line with the bank's general liquidity management policy, and there are no high environmental risks associated with such placements. If a green loan is paid off, postponed or deemed to be no longer eligible, it will be replaced with another qualifying green loan.

Best practices identified - management of proceeds

- Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- Short allocation period, for example typically less than 24 months
- Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting

Not aligned | Partially aligned | Aligned | Best practices

Transparency of reporting – BEST PRACTICES
The bank has committed to provide annual allocation and impact reporting until bonds' maturity. For any green deposits that might become subject to future cancelations, there is a commitment to continue reporting and auditing during the entire six-month notification period. The reports will be made publicly available on the bank's website. The reporting is exhaustive, encompassing the description of funded projects and the corresponding amount allocated at the eligible category level; the share of refinancing, if any; the amount of unallocated proceeds, if relevant; and the expected sustainable benefits.

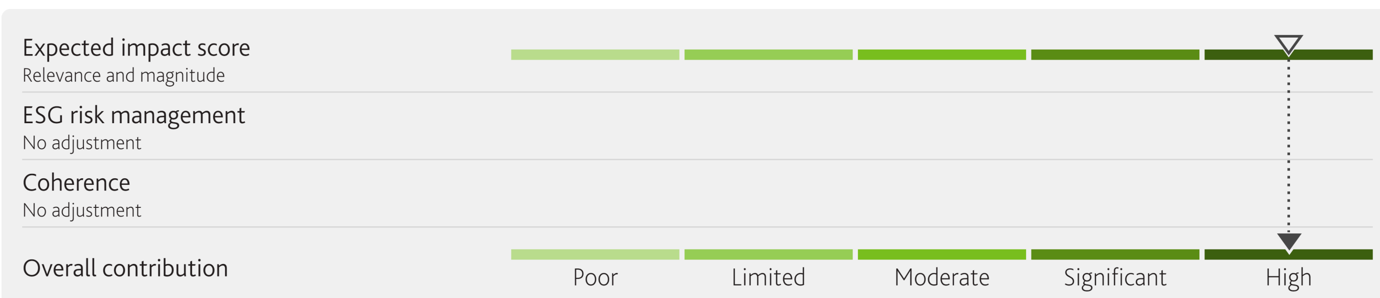
The bank has identified relevant environmental reporting indicators for each of its eligible categories and has clearly disclosed these indicators in its publicly available framework. The calculation methodologies and assumptions used to report on environmental benefits will be included in the report. External auditors will verify the allocation to the eligible projects and the environmental benefits on an annual basis and until the green bonds' maturities.

Best practices identified - reporting

- Reporting until full bond maturity or loan payback
- Reporting covers material developments and issues related to the projects or assets
- Reporting on allocation of proceeds and benefits done at least at eligible category level
- Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes
- Independent impact assessment on environmental benefits by a qualified third-party reviewer at least until full allocation and in case of material changes and/or case studies to report on the social impact/benefits

Contribution to sustainability

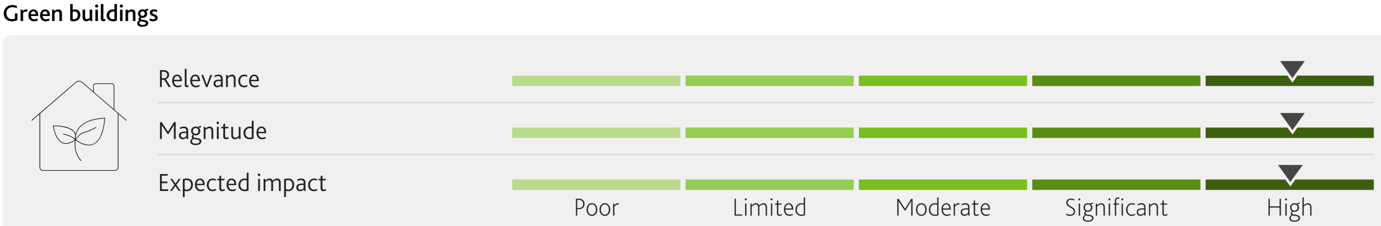
The framework demonstrates a high overall contribution to sustainability.



Expected impact

The expected impact of the two eligible categories on the environmental objective is high. Based on the information provided by the bank, we expect most of the proceeds from forthcoming green instruments to be allocated to the green buildings category. A detailed assessment is provided below.

Green buildings



This eligible category includes the financing of the acquisition, ownership and renovation of residential, commercial and public buildings following recognized international standards. According to the issuer's estimates, the proceeds will predominantly be allocated to the financing of existing residential buildings.

The real estate sector's high energy consumption, and the fact that it represents the sector to which the issuing bank is most heavily exposed, renders the eligible category highly relevant. Despite Norway's goal to cut energy usage in existing buildings by 10 TWh by

2030 from 2016 levels, progress has been slow[2], with the current energy usage at around 80 TWh, accounting for 40% of the country's total energy consumption[3]. The country's housing stock, mostly wooden single-family houses built between 1950 and 1990, now requires significant upgrading[4]. With an average energy usage of 200 kWh/m^2 in dwellings, improving energy efficiency in buildings and reaching a more energy-efficient housing stock are critical for Norway's energy system. This is important not only for domestic energy management but also enables the potential export of surplus clean electricity to the UK and continental Europe. Achieving energy-efficient buildings aligns with Norway's goal to reduce GHG emissions by at least 55% by 2030 and become a low-emission society by 2050, a challenge increased by the fact that most straightforward emission reduction strategies have already been implemented[5].

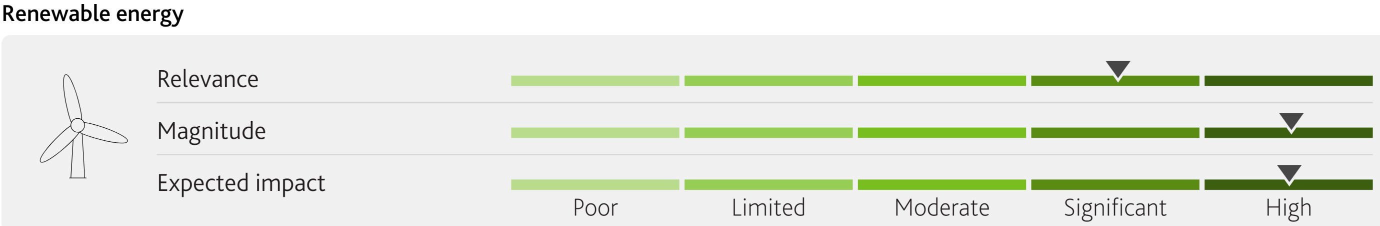
The eligible category is assessed to have an overall high magnitude, notably driven by a portfolio-level commitment to ensure that the average emission intensity will be aligned with science-based carbon reduction pathways aligned with a 1.5°C degree scenario, which is considered the most stringent available threshold for the sector and for a portfolio of existing buildings. Specifically, the issuer refers to the 1.5°C pathway of the Carbon Risk Real Estate Monitor (CRREM)[6], which is defined by country and by building type, and commits that its portfolio's average emissions intensity will be aligned with the CRREM pathway, measured on an annual basis.

The issuer expects most of the proceeds to be allocated to the acquisition of residential buildings built before 2021, which are following best in class market thresholds through reference to CRREM. Furthermore, the bank utilizes robust and reliable third-party information from the provider Eiendomsverdi[7] to measure energy performance and ensure that these houses rank within Norway's top 15% benchmark for energy efficiency, which is considered positively in our assessment.

Buildings built from 2021 onwards will likewise have a high contribution towards climate change mitigation. However, these account for only a small proportion of the loan portfolio. The issuer has specified ambitious operational energy performance thresholds and follows the highest levels of Norway's TEK building code, which address embodied emissions that are key in the Norwegian contexts. Norway's energy mix is almost fully renewable energy, meaning that the greatest environmental impact of buildings occur in the construction stage rather than in the operational stage. In addition projects in the eligible portfolio will adhere to the requirements set forth by the EU Taxonomy's substantial contribution criteria for economic activities “7.2 Renovation of existing buildings” and “7.7 Acquisition and ownership of buildings”. Best-in-class certification schemes — such as BREEAM-NOR, BREEAM Excellent or better — are required for commercial buildings.

Finally, building renovations must demonstrate either an improvement in energy efficiency that results in an annual reduction of primary energy demand (PED) of at least 30% directly or through a succession of measures within a maximum of three years, or an improvement of at least two EPC grades. While a 30% PED reduction is in line with best market standards, we lack visibility into the EPC criterion for renovations, because the impact will be dependent on the baseline EPC, which has not been disclosed.

Renewable energy



Financing in this category is targeted exclusively at solar PV panel installation on buildings. Although solar power can be an important component in decarbonizing real estate, it is not considered the most highly relevant means for mitigating climate change for the building sector, or in the Norwegian context, leading to our assessment of significant relevance. Solar PV panels, which supply electricity, do not directly address the primary energy need of buildings in the Nordic and European context, which is the need for space heating and cooling. Here, crucial technologies such as geothermal, and air and ground source heat pumps can be considered more relevant[8]. Meanwhile, Norway already has a very low carbon intensity in its grid electricity supply, because of the country's high reliance on renewable energy, primarily hydropower, and minimal fossil fuel use. In this context, the installation of solar PV with zero operational emissions is considered less relevant than in a context where the grid is more carbon intensive.

The magnitude is high because of the nature of solar PV as a best available technology, its positive impact and the lack of carbon lock-in. The installation of on-site rooftop solar PV that is planned under this framework aligns with best-practice standards in accordance with the EU Taxonomy (Climate Delegated Act) by meeting the substantial contribution criteria for the economic activity “7.6 Electricity generation using solar photovoltaic technology”. This ensures the provision of green electricity and the avoidance of GHG emissions. We do not expect any carbon lock-in effects, and because of the installation on roofs, there are no identified externalities with respect to land use.

ESG risk management

We have not applied a negative adjustment for the management of ESG externalities to the expected impact score. Fana Sparebank employs an ESG risk module within its corporate lending processes, assessing ESG risks and potential controversies for all new credit engagements. This extends to refinancing decisions and existing clients with credit lines outstanding that surpass NOK10 million (€0.88 million). The bank also obtains quarterly mortgage-specific data on physical climate risk, which allows for the continued monitoring and management of physical risks throughout the loan's life span. A record of ESG risks and corresponding action plans is maintained and overseen within the company's Governance, Risk Management and Compliance (GRC) system. Furthermore, the bank is in the process of adopting reporting recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). Within the realm of client relationship management, Fana Sparebank upholds ethical standards through various employee certifications, encompassing investment advice and credit areas. To promote sustainable governance practices, a Sustainability Committee has been established, tasked with embedding a robust understanding of sustainability across the management and wider organization. The committee leads the bank's sustainability efforts, assesses the full extent of climate risk exposure and advances the bank's dedication to human rights.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. The projects to be financed under Fana Sparebank's framework aim at improvements in energy efficiency and the avoidance of GHG emissions. They align with the bank's overarching sustainability objectives geared toward cultivating a low-carbon and climate-resilient society. Fana Sparebank has committed to achieving a net-zero lending portfolio by 2050. (Re-)financing the acquisition, ownership and renovation of green buildings, and promotion of renewable energy in Norway not only support the collective decarbonization efforts of the country but also addresses key sustainability challenges within the financial and real estate sectors.

Appendix 1 - Mapping eligible categories to the United Nations' Sustainable Development Goals

The two eligible categories included in Fana Sparebank's framework are likely to contribute to three of the UN's SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	*Renewable Energy*	7.2: Increase substantially the share of renewable energy in the global energy mix
GOAL 7: Affordable and Clean Energy	*Green Buildings* *Renewable Energy*	7.3: Double the global rate of improvement in energy efficiency
GOAL 13: Climate Action	*Green Buildings* *Renewable Energy*	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

The mapping of the UN's SDGs in this SPO considers the eligible project categories and associated sustainability objectives/benefits documented in the issuer's green finance framework, as well as resources and guidelines from public institutions, such as the ICMA's SDG mapping guidance and the UN's SDG targets and indicators.

Appendix 2 - Summary of eligible categories in Fana Sparebank's framework

Eligible Project Category	Description	Sustainability Objective	Impact Reporting Metrics
Green Builidngs	Loans financing the acquisition, ownership, and renovation of residential, commercial, and public buildings meeting the criteria presented below, which follow the substantial contribution criteria for the economic activities “7.3 Renovation of existing buildings” and “7.7 Acquisition and ownership of buildings” as laid out in the EU Taxonomy (Climate Delegated Act) for sustainable activities: **Overarching portfolio-level criterion:** - The average emission intensity of Fana Sparebank’s portfolio of Green Loans, calculated as kgCO2/sqm/year, shall be aligned with the science-based carbon reduction pathways for the 1.5C degree scenario set by Carbon Risk Real Estate Monitor (“CRREM”), measured on an annual basis Buildings built in 2021 or later: - Primary energy demand (PED) is 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures . - For commercial buildings, a BREEAM-NOR or BREEAM In-use certificate notation as “Excellent” or better. Buildings built before 2021: - Buildings with Energy Performance Certificate A, or within the top 15% of the national stock in terms of primary energy demand (the top 15% of the national stock is determined based on estimates by Eiendomsverdi AS) - For commercial buildings, a BREEAM-NOR or BREEAM In-use certificate notation as “Excellent” or better. Renovated buildings: - Major renovations leading to a reduction in primary energy demand of at least 30% , or - For residential buildings, major renovations leading to an improvement of at least two energy grades. - For the full building to qualify after renovation, it should be expected to meet the criteria above for buildings built either before or after 2021.	Climate Change Mitigation	- Estimated annual energy consumption (kWh/m^2) - Estimated % reduction of energy use - Avoided GHG emissions (tCO_2e/year) compared to baseline
Renewable Energy	Loans provided to finance the acquisition and installation of solar PV panels on residential or commercial buildings, following the substantial contribution criteria for the economic activity “7.6 Electricity generation using solar photovoltaic technology” as laid out in the EU Taxonomy (Climate Delegated Act) for sustainable activities.	Climate Change Mitigation	- Installed solar PV capacity being financed (MW) - Estimated avoided GHG emissions (tCO_2e/year) compared to baseline

Endnotes

1 The point-in-time assessment is applicable only on the date of assignment or update.

2 Netherlands Enterprise Agency, Market study: sustainable building in Norway, June 2021.

3 Energifaktanorge, Energy use in buildings, retrieved in June 2024.

4 R. Moschetti et al, Analysing energy upgrading projects of single-family houses towards a Norwegian nZEB level, November 2021.

5 International Energy Agency, Norway 2022, retrieved in June 2024.

6 CREEM, Decarbonisation Pathways, retrieved in July 2024.

7 Eiendomsverdi, Green homes and the EU Taxonomy, June 2024.

8 K. Midttomme et al, Geothermal Energy Use in Norway, Country Update for 2015-2019, April 2020.

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