

Fana Sparebank

Green Finance Framework



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1 About Fana Sparebank

Fana Sparebank (“the Bank”) is an independent savings bank established in Bergen in 1878. Our main business is to supply local and regional retail and corporate customers with a broad range of financial services, including lending, deposits and payment services. As a savings bank, Fana Sparebank has a particular interest in serving the local community both with commercial services and by contributing to a sustainable development. Fana Sparebank holds a retail market share of approximately eight percent in the greater Bergen region.

Moody’s Investor Services rates the Bank A3 and the subsidiary Fana Sparebank Boligkreditt AS issues Aaa-rated covered bonds.

Fana Sparebank Boligkreditt AS is a fully owned subsidiary of Fana Sparebank, established in 2009 as a vehicle for the Fana Sparebank Group’s access to the covered bond market.

1.1 Fana Sparebank’s contribution to a sustainable world

Fana Sparebank’s sustainability strategy covers financial, environmental and social responsibility efforts, and we have defined Society as one of five strategic target areas. We are committed to playing an active role in the social and environmental development of the local community and to promote sustainable development. As part of this commitment, a share of the Bank’s earnings is reserved for gift allotment to local initiatives and social programs. Four main areas have been identified as eligible to receive funds, including Sustainability actions, Children and young adults, Culture, and “Well deserved” where the latter is a way of expressing gratitude towards deserving enthusiasts promoting social development. In 2018, the Bank contributed with a total of NOK 10.2 million in gifts.

1.2 UN Sustainable Development Goals

Fana Sparebank has adopted the 17 UN Sustainable Development Goals (SDG) as guidelines for future business conduct. As such, the Bank's main strategy includes ambitious goals in order to obtain a sustainable business model. Fana Sparebank



has identified points of actions and intended measures for *all* the 17 SDGs. Of the 17 SDGs, goals #7, #11, #13 and #17 are of particular interest for this Green Finance Framework:

1.2.1 #7 Affordable and Clean Energy



Fana Sparebank will finance residential and commercial building improvements aimed at both reducing emissions and/or energy consumption by 30%, thus encouraging the use of heat pumps, solar or geothermal energy, or energy from other renewable sources. Furthermore, corporate financing of construction and development of renewable energy sources such as hydro, wind and solar are within the Bank's lending scope. The Bank's contribution to goal #7 will primarily stem from the core lending operations.

1.2.2 #11 Sustainable Cities and Communities



The Bank's core market and lending is concentrated within the greater Bergen region. The municipality of Bergen has defined specific zones for densification with a focus on sustainable housing. This also includes infrastructure solutions for waste management, energy provision and public transport to limit the use of personal vehicles. By financing housing within these defined zones, the Bank aims at contributing to reaching goal #11 on a local level.

1.2.3 #13 Climate action



Fana Sparebank is committed to becoming a climate neutral company by 2019 as defined by the UN Climate Change (UNCC) initiative Climate Neutral Now. Climate Neutral Now is an initiative launched by the UN Climate Change

(UNCC) in 2015, aiming at encouraging and supporting all levels of society to take climate action to achieve a climate neutral world by mid-century, as enshrined in the Paris Agreement adopted the same year. The commitment relates to the Bank's own operations, including the physical locations and buildings the Bank occupies, employee travels for business purposes and commuting. Climate neutrality is achieved by three steps defined by the UNCC:

- 🌿 Measure the greenhouse gas (GHG) emissions;
- 🌿 Reduce them as much as possible; and
- 🌿 Compensate those which cannot be avoided by using UN certified emission reductions (CERs).

In 2019, the Bank purchased CERs for the equivalent of 220 tCO₂ in order to cover the GHG emissions registered for 2018.

1.2.4 #17 Partnerships for the goals



Fana Sparebank sponsors the local initiative gathering over 5,000 people in Bergen to 'The World's Most Beautiful Night Trek'. The event is organized by NORAD, the Norwegian Agency for Development Cooperation, and it brings together local companies, organisations, NGOs and the general public to highlight different initiatives linked to the various SDGs.

1.2.5 Anti-Money Laundering and Terror Financing

As a bank, there is special emphasis on high-level measures within anticorruption, as well as anti-money laundering (AML) and terror financing.

1.2.6 Eco-lighthouse



The Bank became a certified Eco-lighthouse in 2015, and recertified in 2018. Eco-lighthouse is Norway's most widely used certification scheme for enterprises seeking to document their environmental efforts and demonstrate social responsibility. Eco-lighthouse enterprises work towards satisfying requirements and implementing environmental measures on a systematic and ongoing basis in order to create more environmentally friendly operations and safer work environments.

1.2.7 UN Global compact



Fana Sparebank has been committed to UN Global Compact since 2018. UN Global Compact is a voluntary initiative based on CEO commitments to implement universal sustainability principles and to take steps to support UN goals. This means that the Bank will conduct its operating in ways that, at a minimum, meet fundamental responsibilities. These commitments are outlined in Ten Principles of the UN Global Compact within four main areas Human Rights, Labour, Environment and Anti-corruption.

1.2.8 UNEP FI

Founding Signatory of:



Fana Sparebank is a Founding Signatory of UNEP FI, United Nations Environment Programme – Finance Initiative: At the launch in September 2019, Fana Sparebank was one of 130 banks globally to adhere to the Principles for Responsible Banking. UNEP FI is a partnership between the UN and the global financial sector, with a mission to promote sustainable finance.

In addition, the Bank has joined The Collective Commitment to Climate Action. The initiative sets out concrete and time-bound actions for the member banks to scale up their contribution to, and to align their lending with the objectives of the Paris Agreement.

1.2.9 Task Force on Climate-Related Financial Disclosure

Fana Sparebank acknowledges that reporting, disclosure and transparency within climate-related issues represent challenges. The methodology provided by the FSB Task Force on Climate-related Financial Disclosures (TCFD) is an international effort, and a valuable asset for alignment with industry standards. Fana Sparebank does not currently report according to the TCFD recommendations, but will initiate alignment during 2020.

1.3 Fana Sparebank's Green Finance Framework

Fana Sparebank wishes to promote the transition towards a low-carbon and climate resilient society by encouraging sustainable behaviour among our clients. Fana Sparebank's issuance of Green Bonds is regarded a natural part of the company's sustainability profile enabling us to focus even more on positive environmental impacts

Fana Sparebank

within the fields of Green Buildings, both for residential and commercial real estate, Renewable Energy and Clean Transportation.

Fana Sparebank's Green Finance framework covers public deposits, senior bonds and covered bonds ("Green Finance Instruments") issued by Fana Sparebank and all wholly-owned subsidiaries, including Fana Boligkreditt AS.

This Green Finance Framework aligns with the Green Bond Principles published by the International Capital Markets Association (ICMA) in 2018.

Bergen,
10 December 2019

Lisbet K. Nærø
CEO



Kim F. Lingjærde
CFO

2 USE OF PROCEEDS

The net proceeds from the issuance of Green Finance Instruments will be used by Fana Sparebank to, in whole or in part, finance and re-finance a selected pool of eligible projects and assets that promote the transition towards low-carbon and climate-resilient development (“Green Eligible Assets”). Each category has a clear link to one or several Sustainable Development Goals exemplified in the table below.

2.1 Green Eligible Assets

Category	Eligible Project examples	SDG
Green Buildings	<p>Loans to finance residential and commercial real estate including new and/or existing buildings that meet at least one of the following minimum requirements.</p> <p>New buildings, defined as buildings built in 2019 or later:</p> <ul style="list-style-type: none"> 🌿 Energy label Buildings with an energy performance certificate (EPC) A issued by Enova. <p>Existing buildings, defined as buildings built before 2019:</p> <ul style="list-style-type: none"> 🌿 Energy label Buildings with an energy performance certificate (EPC) A or B issued by Enova. 🌿 TEK10 Urban Buildings meeting specific criteria defined below 🌿 Improvement works Energy efficient retrofit or renovation of existing buildings, reducing annual energy use (kWh/m²/year) per heated square meter by at least 30% <p>Certified buildings:</p> <ul style="list-style-type: none"> 🌿 Buildings with a BREEAM certification of Excellent or Outstanding 	#7, #11, #13
Clean Transportation	<p>Loans to finance vehicles run solely on one of the following fuels:</p> <ul style="list-style-type: none"> 🌿 Electric power 🌿 Hydrogen 	#11, #13

Category	Eligible Project examples	SDG
Renewable Energy	Loans to finance construction, development and operation of power plants, generation and transmission of energy, and the manufacture of related technologies and equipment related to the following sources of renewable energy  Hydropower Small scale hydropower, less than 20MW or located in boreal climate regions with less than 4.2g CO2eq/kWh  Wind power Onshore and offshore wind energy projects	#7, #13

2.1.1 Additional details around the criteria for residential Green Buildings

Fana Sparebank aims to drive sustainable development in the Bergen region by providing loans for low-carbon and energy-efficient assets. To identify energy-efficient buildings (Green Buildings), Fana Sparebank has defined a list of criteria to ensure that only the most environmentally friendly buildings in the portfolio are financed by Green Finance Instruments.

As a first step, loans for new residential buildings, built in 2019 or later, with an energy performance certificate A will be included in the portfolio of Green Eligible Assets. For existing buildings, defined as those built before 2019, loans to residential buildings with an energy performance certificate A or B will be included. For existing buildings where energy labels are not available, Fana Sparebank has developed its own methodology for identifying green buildings referred to as TEK10 Urban. This methodology is based on the current Norwegian green bond market standard where Norwegian building codes of 2010 (TEK10) and 2017 (TEK17) are used to identify buildings that belong to the top 15% in terms of energy performance in the local context, which is based on criteria developed by the Climate Bonds Initiative. It is customary to use a conservative time lag of two years between implementation of a new building code and the finalisation of a building to ensure the building meets the relevant code. To further raise the bar, Fana Sparebank will incorporate additional measures, such as access to relevant infrastructure and alternative energy sources, and has therefore defined the additional criteria referred to as TEK10 Urban. These criteria are further described in the next section.







Improving the energy efficiency of the existing building stock is also an important step in reducing the environmental impact of the real estate sector. To promote such development, we therefore include improvement works resulting in a 30 percent reduction of energy consumption in the list of Green Eligible Assets.

To further promote sustainable development in the residential real estate sector, Fana Sparebank will in 2020 introduce a Green Mortgage product, which is described further below. At initiation of this Green Finance Framework, the portfolio of residential Green Eligible Assets will consist of loans that meet either the EPC or the TEK10 Urban criteria. With the introduction of Green Mortgages, Fana Sparebank will collect additional data for individual loans and this will over time replace the need for the TEK10 Urban criteria. Both the TEK10 Urban criteria and the Green Mortgages criteria are further described below.

2.1.2 TEK10 Urban

The City of Bergen is growing, and over the next 20 years the population is expected to increase by 20.000. To ensure a sustainable and efficient city development, the City of Bergen signed a City Growth Plan (Norwegian: Byvekstavgift) in 2017, defining investments of approximately NOK 30 billion over a 20-year period. This plan also incorporates the zero growth target for personal car transport, introduced by the Norwegian Government in 2012 for all larger Norwegian cities. This target means that any growing demand for personal transport should be met by public transport solutions as well as improved accessibility for bicycles and pedestrians, rather than by increasing the number of personal cars.

The City of Bergen has defined a number of sustainable development areas, referred to as zones, with different characteristics and where further development of housing and infrastructure will be made. Two of these zones – City Centre Zones (Norwegian: Sentrumskjerne) and City Densification Zones (Norwegian: Byfortettingssone) – are defined using particular criteria around access to public services, enabling a more sustainable lifestyle for its residents. These criteria include, but are not limited to:

-  short or walking distance to public transport
-  short or walking distance to kindergartens and schools
-  short or walking distance to grocery stores
-  short or walking distance to the work place
-  access points for charging electric vehicles
-  access to district heating

- 🌿 access to centralized waste collection systems
- 🌿 restrictions for public parking and/or residential zone parking
- 🌿 restrictions on non-clean burning wood stoves
- 🌿 within or affected by toll roads aimed at reducing the use of private vehicles

Base on the above, buildings located within City Centre Zones and City Densification Zones, built after 2012, to ensure compliance with the TEK10 building code, are eligible under the TEK10 Urban criteria. Fana Sparebank will ensure compliance with the TEK10 Urban criteria by using postal codes.

[Other cities may be added depending on availability of similar criteria and zone definitions.]

2.1.3 Green Mortgages

Fana Sparebank will introduce Green Mortgages to the public by Q1 2020. In order to encourage low-carbon construction and energy-efficiency improvements, Green Mortgages will be offered with a price incentive. The criteria for Green Mortgages will correspond to the EPC and criteria as well as the criteria for Improvement Works defined in this framework but with a scoring system where different criteria, similar to those of the Bergen City Densification Zones, will be introduced to generate different price discounts. In the first phase, Green Mortgages will be offered for buildings built in 2019 or later with an Energy Performance Certificate of A, and for buildings built before 2019 with an EPC label of A or B. In the second phase, the Bank also intends to include buildings meeting the Improvement Works criteria and additional criteria such as, but not limited to, energy source, distance to public transport and ownership of electric vehicles will generate different discounts. Scores will be based on the borrower's qualifications at the time of signing the mortgage. By introducing these additional criteria, rendering different discounts, our ambition is to promote sustainable behaviour within our client base.

2.2 Exclusion criteria

The 10 Principles outlined in the UN Global Compact represent codes of conduct and act as general guidelines for Fana Sparebank. As such, the Bank will not finance activities that are in violation of the Ten Principles of the UN Global Compact within the four areas of Human Rights, Labour, Environment and Anti-corruption.

For the avoidance of doubt, Green Finance Instruments will not be used to finance investments linked to fossil energy generation, research and/or development within weapons and defence, potentially environmentally negative resource extraction, gambling or tobacco.

Green Mortgages, will not be offered for buildings located on sites deemed at risk for flooding, avalanches or landslides. No financing will be granted to structures exposed to sea level rising in violation with the recommendations from the Norwegian Directorate for Civil Protection¹ or local regulation plans. Other climate resilience measures may be added going forward depending on data availability.






¹ Integrating Sea Level Rise and Storm Surges in Local Planning. The Norwegian Directorate for Civil Protection (DSB). October 2017.

3 PROCESS FOR PROJECT EVALUATION AND SELECTION

3.1 Selection of Eligible Projects and Assets

The evaluation and selection process of Green Eligible Assets is a key process in ensuring that the assets financed by Green Finance Instruments are allocated to projects and assets which meet the criteria in this Green Finance Framework.

To manage this process, Fana Sparebank has set up an internal Green Finance Committee, consisting of the following five members:

-  Chief Executive Officer
-  Chief Financial Officer
-  Chief Compliance Officer
-  Chief Credit and AML Officer
-  Chief Customer Officer

The Green Finance Committee has been responsible for defining the criteria of this Green Finance Framework. Relevant business units within Fana Sparebank will nominate assets to be included in the pool of Green Eligible Assets, and the Credit department will evaluate the assets and their alignment with the criteria of this framework to identify Green Eligible Assets.

If there is uncertainty in regards to the eligibility of an asset, the Green Finance Committee will be responsible for evaluating the asset's eligibility. If a Green Eligible Asset is viewed as controversial, for example as a result of public opinion, the Green Finance Committee has the option of excluding such asset from the pool of Green Eligible Assets if deemed appropriate. The process will be documented and maintained by the Credit department.

The pool of Green Eligible Assets will be monitored on a regular basis during the term of any Green Finance Instrument to ensure compliance with the criteria set forth in this framework. The Chief Credit Officer is ultimately responsible for keeping the pool up to date, and for all decisions made by the Green Finance Committee, the Chief Credit Officer is also granted exclusive veto on the selection of Green Eligible Assets.

3.2 Future developments

Market standards for green finance are still evolving, and it is Fana Sparebank's intention to align its Green Finance Framework with best market practice.

The Green Finance Committee will monitor relevant market developments, and when deemed necessary by the bank, manage appropriate updates to this Green Finance Framework, and oversee its implementation.

Fana Sparebank has the expressed intention to align with the EU Taxonomy when the standard is implemented. For the avoidance of doubt, it is understood that the EU Taxonomy will not apply to outstanding Green Finance Instruments (grandfathering). Conversely, new issues shall be aligned with the most recent version of the EU Taxonomy and as relevant to the Green Eligible Assets categories of this Green Finance Framework.

4 MANAGEMENT OF PROCEEDS

4.1 General Principles

Net proceeds from Green Finance Instruments will be transferred to a designated account. The Credit Support Department is responsible for making sure the net proceeds finance Green Eligible Assets in accordance with this Framework.

Fana Sparebank intends to allocate the proceeds from Green Finance Instruments to loans included in the pool of Green Eligible Assets, in accordance with the evaluation and selection process presented above.

Fana Sparebank's Credit Support Department will also make sure that the proceeds from the Green Finance Instruments, at all times, are less or equal to the pool of Green Eligible Assets.

If an asset no longer qualifies according to the criteria of this Green Finance Framework, the asset will be removed from the pool of Green Eligible Assets. All changes in the pool of Green Eligible Assets will be tracked by the Credit Department.

To ensure the fulfilment of the obligations at all times, monthly reports are produced under the supervision of the Chief Compliance Officer.

4.2 Green Covered Bonds

Fana Sparebank Boligkreditt AS has entered a general management agreement with Fana Sparebank for monitoring and supervision of the loan portfolio. All funding of the company, including Green Covered Bonds, is included in the management agreement.

Green Covered Bonds issued by Fana Sparebank Boligkreditt will received the same credit rating as other covered Bonds issued by the Group, currently Aaa, rated by Moody's Investors Service.

4.3 Green Deposits

Fana Sparebank has offered Green Deposits as a product aimed at the general public, both retail and corporate clients, since 2016. Green Deposits are based upon ICMA's Green Bond Principles and in November 2016, Fana Sparebank published a Framework for Green Deposits with a second opinion provided by DNV GL.

Going forward, Green Deposits will be incorporated into this Green Finance Framework and proceeds will be earmarked for financing and refinancing of Green Eligible Assets.

4.4 Unallocated Proceeds

Any unallocated proceeds from Green Finance Instruments temporarily held by Fana Sparebank will be placed in an ordinary bank account or in the short term money market.

Temporary investments of unallocated proceeds will be subject to the exclusionary criteria defined in this Green Finance Framework.

Should the total amount of Green Eligible Assets fail to exceed the volume of outstanding Green Finance Instruments, and measures to correct the discrepancy fail within a

timeframe of three months, Fana Sparebank may investigate the possibility of repurchasing the outstanding Green Finance Instruments, depending on investor interest, and then write down such volume to restore the balance.

5 REPORTING

To provide transparency towards investors and other market stakeholders, Fana Sparebank commits to regular reporting at least on an annual basis until full allocation, and thereafter in the event of material changes to the pool of Green Eligible Assets. The report will include an Allocation Report as well as an Impact Report, and will be made available on Fana Sparebank's website.

5.1 Allocation report

An allocation report will be provided with a minimum content of data including, but not limited to:

- Total volume of the pool of Green Eligible Assets, as well as a breakdown per each category of Green Eligible Assets (MNOK)
- Total volume of outstanding Green Finance Instruments, divided into Green Covered Bonds, Green Bonds and Green Deposits (MNOK)
- Total volume of outstanding Green Mortgages
- Share of new financing versus refinancing (%)
- Total amount (if any) of net proceeds awaiting allocation (MNOK)

5.2 Impact report

The assessment of environmental impact is provided with the reservation that not all data can be accessed and that calculations may be on a best effort basis. Impact will be reported on a portfolio basis for each category of Green Eligible Assets defined in this framework.

Fana Sparebank will, to the extent possible, base the impact reporting on the recommendations in the Position Paper on Green Bonds Impact Reporting published by a group of Nordic public sector issuers in 2019.

Green Eligible Asset Category	Relevant Impact Metrics
Green Buildings	Share of assets funded by Green Finance Instruments satisfying the following criteria: <ul style="list-style-type: none"> • EPC A and B • TEK10 Urban • BREEAM certification of Excellent or Outstanding • Improvement works reducing energy consumption by 30% Annual energy consumption and energy savings (MWh). Estimated annual reduction of CO2 emissions (tons of CO2e).
Clean Transportation	Number of vehicles funded. Estimated annual reduction/avoidance of CO2 emissions (tons of CO2e).
Renewable Energy	Energy generation capacity (MWh). Estimated annual avoidance of CO2 emissions (tons of CO2e).

6 EXTERNAL REVIEW

6.1 Second Opinion

Fana Sparebank has appointed CICERO Shades of Green to provide a Second Opinion on this Green Finance Framework. CICERO Shades of Green has confirmed the alignment with the ICMA Green Bond Principles 2018. The Second Opinion and the Green Finance Framework will be publicly available on Fana Sparebank’s website.

6.2 Annual Verification

Fana Sparebank's financial auditor, or a similar third party with the relevant expertise and experience, will be appointed to verify and approve annual reporting on Green Finance Instruments issued by Fana Sparebank and its fully-owned subsidiaries. Conclusions of the external review will be provided in a signed statement, which will be published on Fana Sparebank's website www.fanasparebank.no.

Fana Sparebank
P.O. Box 10 Nesttun
N-5852 Bergen
Tel. +47 915 03411
W: www.fanasparebank.no
e-mail: post@fanasporebank.no

Enterprise number/LEI: 937 896 859 / 5967007LIEEXZX77UG71