

ASSESSMENT

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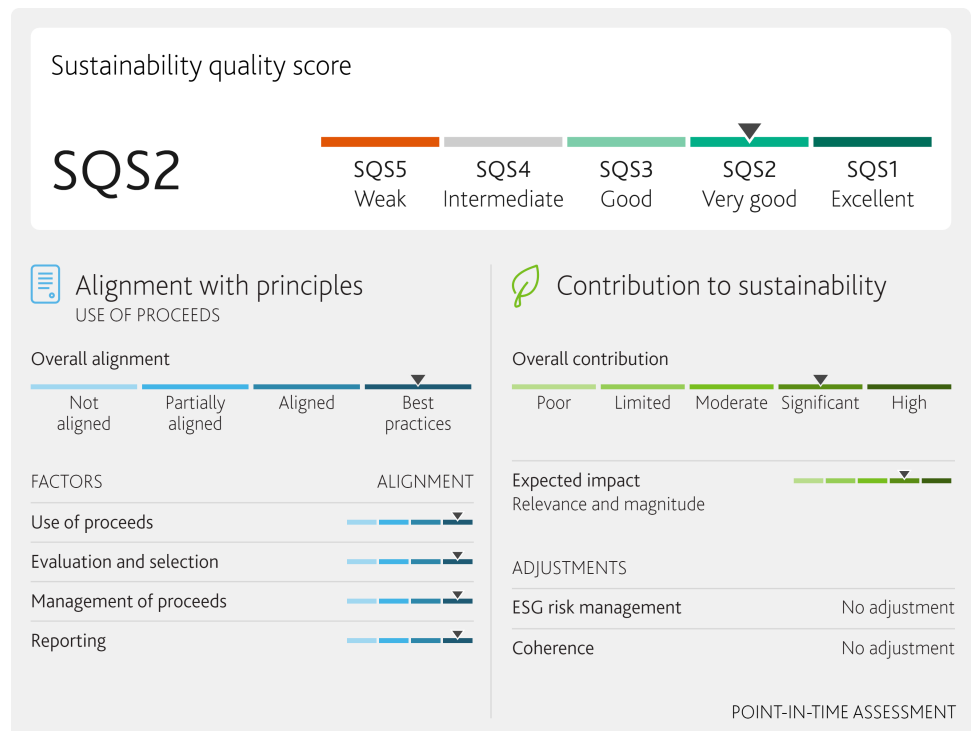
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Sparebanken Sør

Second Party Opinion – Green Bond Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 Sustainability Quality Score (very good) to Sparebanken Sør's green bond framework dated October 2024. The issuer has established its use-of-proceeds framework with the aim of financing projects across one eligible green category — green buildings. 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). The company has also incorporated all Moody's Ratings identified best practices for all four components. The framework demonstrates a significant contribution to sustainability.



Scope

We have provided a Second Party Opinion (SPO) on the green credentials of Sparebanken Sør's green bond framework, including the framework's alignment with the ICMA's GBP 2021 (including the June 2022 Appendix 1). Under its use-of-proceeds framework, Sparebanken Sør and its subsidiary Sparebanken Sør Boligkreditt plan to issue green bonds, including senior preferred, senior non-preferred, and covered bonds, dedicated to projects across one green category, as outlined in Appendix 2 of this report.

Our assessment is based on the last updated version of the framework received on 24 October 2024, and our opinion reflects our point-in-time assessment¹ 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

Sparebanken Sør, founded in the 1820s, is a financial institution based in southern Norway, with a focus on serving the regions of Agder, Vestfold, Telemark, and Rogaland. With headquarters in Kristiansand, it manages assets totaling around NOK 168 billion. This independent savings bank offers a broad range of financial products and services, including savings and loan options for both individual consumers and businesses. Additionally, its portfolio extends to insurance, leasing, vehicle and consumer financing, securities, and real estate services, which are provided through a network of owner companies and partners. The bank employs a strategy that integrates digital platforms and physical sales offices for product distribution, supported by a data-driven approach to operations and service delivery. In terms of its sustainability strategy, the bank aims to be net-zero across the value chain by 2050. The long-term goal is supported by short-term GHG emissions reduction commitments which include a 55% reduction target for scope 1 and 2 emissions by 2030 from a 2017 baseline, a 40% reduction target in emissions associated with its lending portfolio by 2030 from a 2023 baseline, and a 40% reduction target in emissions associated with its investment portfolio by 2030.

Strengths

- » 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 buildings 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 eligible buildings must demonstrate an energy performance among the top 15% in Norway, representing a good threshold, this will not guarantee that buildings are in line with a 1.5°C pathway over time.

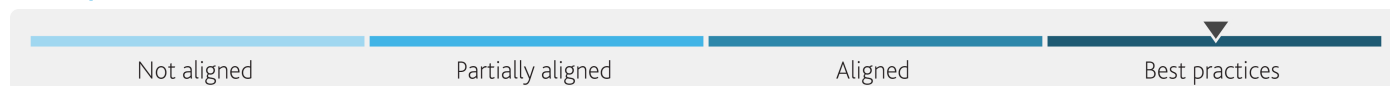
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Alignment with principles

Sparebanken Sør's green bond framework is aligned with the four core components of the ICMA's GBP 2021 (including the June 2022 Appendix 1):

- 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



Clarity of the eligible categories – BEST PRACTICES

Sparebanken Sør has clearly communicated the nature of expenditures for its one eligible category. They consist of loans for the acquisition, ownership and renovation of green buildings, typically green mortgages. Loans for the eligible category are (re-)financed through instruments including senior bonds and covered bonds. The eligibility criteria are also clearly defined and refer to the substantial contribution criteria for the economic activities "7.2 Renovation of existing buildings" and "7.7 Acquisition and ownership of buildings", from the EU Taxonomy Climate Delegated Act for sustainable activities. The location of eligible projects is defined as within Norway. These will mostly be in the regions of Agder, Vestfold, Telemark, and Rogaland, although the bank also issues mortgages outside these regions, notably in the Oslo region.

Clarity of the environmental objectives – BEST PRACTICES

The bank has stated that the environmental objective is climate change mitigation, which is considered relevant for the eligible category 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.

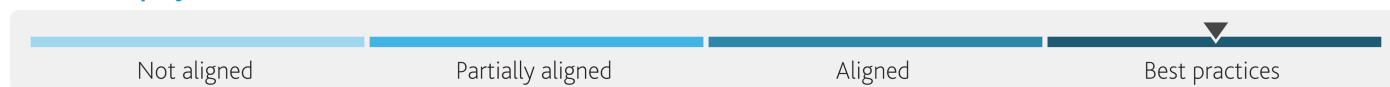
Clarity of the expected benefits – BEST PRACTICES

The bank has identified improvements in energy efficiency and the avoidance of greenhouse gas (GHG) emissions as relevant benefits for the eligible category. The benefits are clear, measurable and will be quantified in the ongoing reporting. The bank expects refinancing to be close to 100% of proceeds, and has disclosed in its publicly available framework that issuance will go largely toward refinancing, ensuring transparency to investors. The bank does not apply a set look-back period, and this information will be disclosed publicly.

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



Transparency and quality of process for defining eligible projects – BEST PRACTICES

Sparebanken Sør has established a clear process for evaluating and selecting eligible projects, encompassing 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 Bond Committee, which is composed of representatives from the group's sustainability, treasury, and corporate management departments, from the subsidiary Sparebanken Sør Boligkreditt, and representatives from relevant business units within corporate and private markets. The Green Bond Committee is responsible for reviewing and validating the selection of eligible green projects, as well as for monitoring the continued compliance of the loans with the eligibility criteria. Allocation reporting is approved quarterly by the committee. 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 bank 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 lending portfolio, Sparebanken Sør identifies ESG risks ex-ante through its ESG risk module which includes questions on physical and transition climate risk, biodiversity and nature impacts, social risks related to equal rights and workers rights, and ethical practices. With respect to buildings, specific questions and risks related to energy performance, physical risks, nature and localized pollution are assessed, and the bank also sources property-specific physical climate risk data from Eiendomsverdi and NVE. The monitoring of potential ESG risks and controversies is performed on an ongoing basis. In the event that a loan in the eligible portfolio no longer meets the eligibility criteria, Sparebanken Sør will remove the loan and replace it, when necessary, to restore the balance as soon as reasonably practicable.

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



Allocation and tracking of proceeds – BEST PRACTICES

Sparebanken Sør 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. So long as there are green bonds outstanding the portfolio is expected to be inherently dynamic, as existing loans mature and new ones are included to replace them. This will be monitored on a quarterly basis, including through validation by the Green Bond Committee and the publication of quarterly allocation reporting. The bank plans to designate sufficient eligible loans in the Eligible Loan Portfolio to ensure that its outstanding balance of eligible loans always exceeds the total balance of all outstanding green bonds.

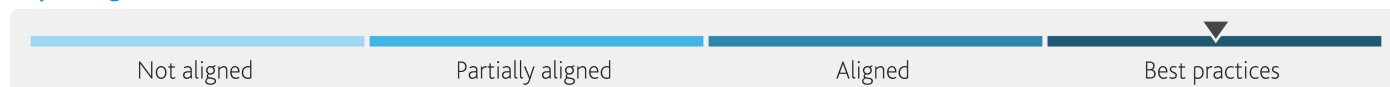
Management of unallocated proceeds – BEST PRACTICES

The bank expects close to full allocation of proceeds at the time of issuance. However, should there be any unallocated proceeds, those will be held or invested in the bank's green liquidity portfolio. Sparebanken Sør has committed to not invest net proceeds in greenhouse gas-intensive activities, high environmental impact activities or controversial activities. If a green asset is deemed to be no longer eligible, it will be replaced with another qualifying green asset.

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



Transparency of reporting – BEST PRACTICES

The bank has committed to provide quarterly allocation and annual impact reporting until bonds' maturity. The reports will be made publicly available on the bank's website. The reporting encompasses the description of funded projects and the corresponding amount allocated at the eligible category and subcategory level; the amount of unallocated proceeds, if relevant; and the expected sustainable benefits. Although issuance is expected to be almost 100% refinancing, the bank could still include a share of refinancing in its reporting. Reporting will also cover material developments or issues.

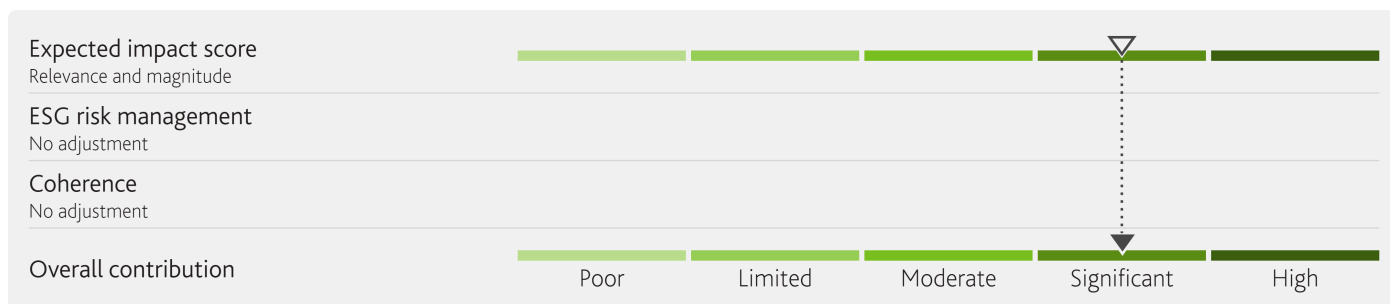
The bank has identified relevant environmental reporting indicators for each of its eligible categories and has clearly disclosed these indicators in its publicly available framework. The calculation methodologies and assumptions used to report on environmental benefits will be included in reporting. The allocation to the eligible projects will be verified externally, including a limited assurance report, and the environmental benefits will be subject to an independent impact assessment.

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

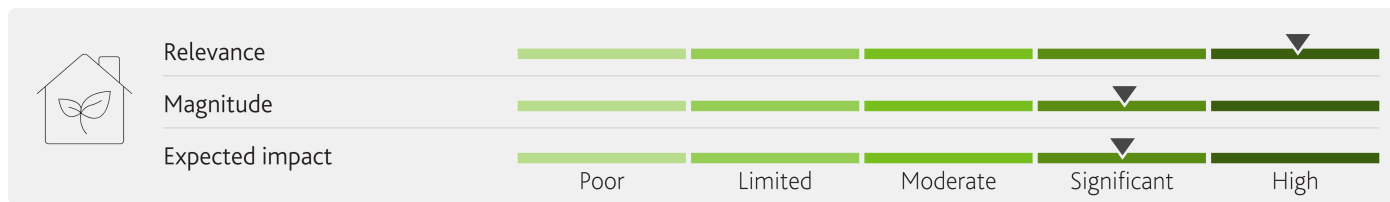
The framework demonstrates a significant overall contribution to sustainability.



Expected impact

The expected impact of the one eligible category, and therefore the entire framework, on the environmental objective is significant. A detailed assessment is provided below.

Green buildings



This eligible category includes the financing of the acquisition, ownership and renovation of residential and commercial buildings following recognized 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 slow², with current energy usage at around 80 TWh, accounting for 40% of the country's

total energy consumption³ The country's housing stock, mostly wooden single-family houses built between 1950 and 1990, now requires significant upgrading⁴. With an average energy usage of 200 kWh/m² 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 magnitude is significant because green building projects financed under this category are likely to improve energy efficiency and reduce GHG emissions from the building sector in Norway. Projects in the eligible portfolio will adhere to applicable substantial contribution criteria of the EU Taxonomy for economic activities "7.2 Renovation of existing buildings" and "7.7 Acquisition and ownership of buildings", thus referring to recognized international standards. The issuer expects most of the proceeds to be allocated toward existing residential buildings. The issuer has different sets of criteria for buildings built before 2021, buildings built in or since 2021, and for the renovation of buildings. With regard to acquiring buildings built before 2021, the eligibility criterion of belonging to the top 15% of the country's building stock in terms of energy efficiency is considered ambitious, but not the most ambitious threshold. Buildings in the top 15% of the local Norwegian housing stock can have Energy Performance Certificates (EPCs) of A or B, and have an energy performance below 120 kWh/m²/year for houses, or below 95 kWh/m²/year for apartments. We note that in Norway, due to the stringency of current building regulations and given the rate of house-building, the average energy efficiency of the top 15% is expected to gradually improve over time. However, the rate of this improvement is still slower than what would be required to be compatible with a 1.5°C trajectory in the long-term. In Norway, according to the Carbon Risk Real Estate Monitor (CRREM), residential multi-family buildings must have an energy performance lower than 99.9 kWh/m²/year (as of 2025), 93.0 kWh/m²/year (as of 2026), and so on, demonstrating adherence to a diminishing threshold over time. Buildings need to reach a long-term operational energy performance lower than 65 kWh/m²/year by 2031 to be aligned with a 1.5°C scenario. The EPC B requirement is not in line with the long term requirement, and the gap will continue growing as the EPC thresholds are static.

For this framework, buildings built since 2021 must adhere to a threshold of energy performance of 10% below the Nearly-Zero Energy Building (NZEB) standard to be considered eligible, which is considered to be following best available thresholds. Indeed, given the ambitiousness of the Norwegian NZEB standard, buildings 10% more efficient than the standard have very high energy efficiency and low energy consumption, although the standard does not account for technical equipment or lighting. For instance, for residential single-occupancy apartments, the Norwegian NZEB minus 10% requires an energy performance of 60 kWh/m²/year, adjusted to 88.9 kWh/m²/year with equipment and lighting, leaving it below the current but above the long term CRREM thresholds. Lastly, building renovations must demonstrate an improvement in energy efficiency that results in an annual reduction of primary energy demand (PED) of at least 30%, which is in line with good market standards but not the most ambitious ones. We positively assess the explicit inclusion of a minimum post-renovation EPC threshold. However, as this has been set at the level of EPC class D, such buildings will still have a relatively high energy consumption compared to buildings with better EPCs. Renovation financing may also include installation of on-site renewable heat or electricity generation (e.g., heat pumps, solar panels). These technologies are generally viewed positively and, in any case, make up only a very small share of the total allocation.

ESG risk management

We have not applied a negative adjustment for the management of ESG externalities to the expected impact score. Sparebanken Sør employs an ESG risk module within its lending processes, assessing ESG risks for all new credit engagements. The module includes questions on sources of risk including physical and transition climate risk, biodiversity and nature impacts, social risks related to equal rights and workers rights, and ethical practices. With respect to buildings, specific questions and risks related to energy performance, physical risks, nature and localized pollution are assessed, and the bank also sources property-specific physical climate risk data from third-party providers Eiendomsverdi and NVE.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. The projects to be financed under Sparebanken Sør'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. Sparebanken Sør has committed to being net-zero across its value chain by 2050, including emissions from its own activities, lending and investments.

It has also set quantitative GHG emissions reduction targets, including for a 55% reduction in its scope 1 and 2 emissions by 2030, from a baseline year 2017; a 40% reduction in emissions associated with its lending by 2030, from the baseline year 2023; and a 40% reduction in emissions associated with its investment portfolio by 2030, with the baseline still being determined (both lending and investment targets cover scopes 1 and 2). (Re-)financing the acquisition, ownership and renovation of green buildings in Norway not only supports 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 eligible category included in Sparebanken Sør's framework is likely to contribute to two of the UN's SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	Green Buildings	7.3: Double the global rate of improvement in energy efficiency
GOAL 13: Climate Action	Green Buildings	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 Sparebanken Sør's framework

Eligible Project Category	Description	Sustainability Objective	Impact Reporting Metrics
<i>Green Buildings</i>	<p>Loans financing the acquisition, ownership, and renovation of residential and commercial buildings meeting the criteria below:</p> <p><u>Residential buildings:</u></p> <ul style="list-style-type: none"> • Buildings with EPC A • Buildings built ≥2021: Buildings compliant with the relevant NZEB-10% threshold • Buildings built < 2021: Within the top 15% most energy efficient buildings in Norway : <ul style="list-style-type: none"> - Complying with TEK 10 & TEK 17 building codes (built ≥ 2012) - Other energy efficient buildings reflecting the top 15% <p><u>Commercial buildings:</u></p> <ul style="list-style-type: none"> • Buildings with EPC A • Buildings built ≥2021: Buildings compliant with the relevant NZEB-10% threshold² • Buildings built < 2021: Within the top 15% low carbon buildings in Norway <ul style="list-style-type: none"> - Complying with TEK10 & TEK17 building codes (hotel and restaurant buildings built ≥ 2013 & office, retail and industrial buildings built ≥ 2012) - Other energy efficient buildings reflecting the top 15% <p><u>Refurbishment/renovation:</u></p> <p>Refurbished residential and commercial buildings in Norway with an improved energy efficiency of 30%:</p> <ul style="list-style-type: none"> - Refurbished Norwegian residential and commercial buildings with at least a 30% improvement in energy efficiency measured in kWh/m² - Where EPC labels are available to select eligible assets under this criterion, only labels of 'D' or better will be considered 	Climate Change Mitigation	<ul style="list-style-type: none"> • Estimated ex-ante annual energy consumption in kWh/m² or energy savings in MWh • Estimated annual GHG emissions reduced/avoided in tonnes of CO₂e

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.

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