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## Second Party Opinion

# Askim & Spydeberg Sparebank (ASbank)'s Green Bond Framework

March 5, 2024

**Location:** Norway

**Sector:** Banking

## Alignment With Principles

Aligned = ☒ Conceptually aligned = ☐ Not aligned = ☒

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

See [Alignment Assessment](#) for more detail.

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Light  
green

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

Our [Shades of Green Analytical Approach](#) >

## Strengths

**We view favorably ASbank's initiative to fund activities that serve as immediate transitional steps.** Considering the sectors where it is active and its local context, the bank has identified relevant projects within agriculture and real estate.

## Weaknesses

**Eligibility requirements for green buildings do not exceed the regulatory minimum, except for new construction.** Buildings to be financed must be energy efficient compared to the stock of national buildings. However, the eligibility criteria fall short of representing significant steps toward a low carbon, climate resilient future.

## Areas to watch

**ASbank's strategy for managing climate risk is still in its early stages.** The bank has recently introduced a client climate risk assessment, but it's uncertain whether this initiative has already influenced any credit decisions.

**The lack of comprehensive sustainability disclosure limits ASbank's capacity to track progress toward its sustainability goals.** Although we consider the bank's reporting within the framework to be robust, its corporate environmental, social, and governance (ESG) disclosure, including its own and financed greenhouse gas (GHG) emissions, is under development.

## Eligible Green Projects Assessment Summary

Eligible projects under issuer’s green bond framework are assessed based on their environmental benefits and risks, using S&P Global Ratings' Shades of Green methodology.

Green buildings	 Light green
Loans provided to finance ownership or renovation of residential, commercial, and public buildings.	
Sustainable agriculture	 Light green
Loans provided to finance environmentally responsible agriculture projects and assets.	

See [Analysis Of Eligible Projects](#) for more detail.

# Issuer Sustainability Context

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

## Company Description

Askim & Spydeberg Sparebank (ASbank) operates as a regional savings bank in Norway and was founded in 1859. The bank offers personal and business checking and saving accounts, insurance, investment, mobile and internet banking, personal and home loans, bill payments, overdrafts, and other financial services. ASbank serves customers in the regions of Askim and Spydeberg and municipalities in the surrounding areas. The bank has 60 employees and is involved in the local community, supporting local initiatives and contributing to local economic growth.

## Material Sustainability Factors

### Climate transition risk

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

### Physical climate risk

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

### Biodiversity and resource use

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

### Access and affordability

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

## Issuer And Context Analysis

The project categories included in the green bond framework are green buildings and sustainable agriculture. The sustainable agriculture category includes projects related to renewable energy and pollution prevention and control. These categories are chosen to address the climate transition risk, which is a key sustainability factor for ASbank. Moreover, both green buildings and sustainable agriculture are exposed to the impacts of climate change, making physical climate risk highly relevant within the framework. We also note the importance of biodiversity risks in relation to the selected project categories.

**While ASbank has embarked on a journey to manage climate transition and physical risks, its strategy is in its infancy.** The bank initiated a sustainability policy that mandates the assessment of clients' climate risk, encompassing both transition and physical risks. However, we note that the policy's implementation is still in its early stages. That said, the policy underscores the bank's alignment with the U.N.'s Sustainable Development Goals, encompassing objectives such as gender equality, decent work and economic growth, sustainable cities and local communities, and responsible consumption and production. ASbank reports on initiating climate risk assessments across various sectors, including mining, agriculture, forestry, fishing, farming, oil and gas, transportation, large construction projects, and commercial buildings. These assessments take the form of questionnaires completed by the bank's customers, addressing their overall engagement with sustainability, human rights, anti-money laundering, and corruption, as well as covering general aspects of both physical and transitional climate risks. To bolster its sustainability efforts, ASbank has also developed guidelines for customer advisors to enhance the assessment of sustainability risks in credit. We view positively the clear governance of ESG issues, including climate change, through all levels of the organization. For example, the board is directly involved in the development of bank's sustainability strategy with the CEO being responsible for its implementation. The bank has a sustainability group, headed by the sustainability manager, that reports directly to the CEO and board.

**ASbank introduced green mortgage loans and green renovation loans in 2023, offering preferential terms to customers with energy-efficient properties.** ASbank has set targets that include increasing the proportion of green mortgage loans in its retail loan portfolio to 25% by 2026 and providing Norwegian krone (NOK) 10 million (about \$954,195) in green renovation loans in 2024. The bank also aspires to expand its green product portfolio to encompass corporates and the agriculture sector in 2024, targeting projects with improved environmental impacts.

**The bank's limited sustainability reporting and absence of GHG emissions disclosure constrain our evaluation of its ability to monitor transition and physical climate risks.** However, ASbank has achieved Eco-Lighthouse certification, a national environmental management standard recognized by the EU. This certification attests to the bank's adherence to principles outlined in the GHG protocol and its incorporation of recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) into its management systems.

**ASbank's incorporation of biodiversity risks in its lending activity is lacking.** The bank's loan portfolio comprises about 20% loans from local businesses, mainly from the agriculture sector, which can potentially impact local biodiversity.

# Alignment Assessment

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

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

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

### ✓ Use of proceeds

All the framework's green project categories are shaded in green, and the issuer commits to allocate the net proceeds issued under the green bond framework exclusively to eligible green projects. Please refer to "Analysis of Eligible Projects" section for more information on our analysis of the environmental benefits of the expected use of proceeds.

ASbank commits to allocate an amount equal to the net proceeds from instruments issued under its green bond framework to finance a portfolio of loans directed toward transition to a low-carbon economy. The eligible green project categories include green buildings and sustainable agriculture. These projects will contribute to the environmental objective of climate change mitigation and adaptation, biodiversity and natural resource conservation, as well as pollution prevention and control. The green building projects will focus on residential buildings, commercial and public buildings, as well as renovation. Sustainable agriculture projects will focus on organic farming, agriculture and farming activities, renewable energy and energy efficiency, and pollution prevention.

### ✓ Process for project evaluation and selection

ASbank describes its process for project evaluation and selection in its green bond framework. The bank has established a green bond committee (GBC) ,comprising executive management and treasury department members. This committee will be responsible for selecting green projects in line with the eligibility criteria, keeping a register of identified projects, and future updates of the framework. If a project no longer meets the eligibility criteria, the GBC will remove it from the portfolio. Furthermore, ASbank states that projects will be screened for ESG risks based on applicable laws and regulations, as well as its internal credit assessment procedures. The bank states that it will not use the proceeds to finance loans to customers linked to fossil energy extraction and/or generation, production of or research and development within weapons and defense systems, potentially environmentally negative resource extraction, or gambling, pornography, or tobacco.

### ✓ Management of proceeds

ASbank commits to allocating the proceeds from instruments issued under its green bond framework to assets in its green loan portfolio. The allocation of net proceeds will be tracked to ensure that they only support the financing of defined eligible projects. However, ASbank does not provide details on the tracking method. Under the framework, the bank will ensure that the value of the green loan portfolio always exceeds the value of outstanding green bonds. Furthermore, the bank states projects that no longer meet the eligibility criteria will be removed and replaced by other eligible ones. Any unallocated proceeds will be managed in line with the treasury department's regular liquidity management policy.

### ✓ Reporting

The bank commits to publish an annual green bond report that includes allocation and impact reporting. The allocation reporting will include the aggregate size of the identified green loan portfolio, the nominal amount of green bonds outstanding, the share of the green loan portfolio currently financed by the framework, and the amount of net proceeds awaiting allocation. The issuer will also report the actual environmental impact of projects until full allocation, covering both categories of green buildings and sustainable agriculture. We view as positive that the issuer will align its impact reporting with the ICMA's Harmonized Framework for Impact Reporting and that the allocation report will provide transparency on assumptions and calculation methods.

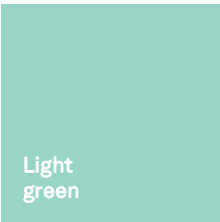
# Analysis Of Eligible Projects

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

Over the three years following issuance of the financing, ASbank expects to allocate the majority (about 90%) of proceeds to green buildings, mainly toward residential mortgages. The bank will mostly focus on existing buildings but also finance new buildings where relevant. Projects under the sustainable agriculture category will receive a minor share of funding.

## Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in ASbank's green bond framework, we assess the framework Light green.



Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.  
Our [Shades of Green Analytical Approach](#) >

## Green project categories

Green buildings	
Assessment	Description
<div></div> Light green	<p>Loans provided to finance ownership or renovation of residential, commercial, and public buildings, which meet either of the criteria set out below:</p> <p>1. Buildings built in 2021 or later:</p> <ul style="list-style-type: none"><li>Residential buildings: Primary energy demand (PED) is 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures.</li><li>Commercial and public buildings: Building Research Establishment Environmental Assessment Method (BREEAM)-NOR or BREEAM in-use certificate notation of excellent or better.</li></ul> <p>2. Buildings built before 2021:</p> <ul style="list-style-type: none"><li>Residential buildings: An energy performance certificate (EPC) A or buildings within the top 15% of the national stock in terms of primary energy demand; defined as those built according to Norwegian building codes of 2010 (TEK10) or 2017 (TEK17). Those built prior to 2012 must obtain an EPC B or better.</li><li>Commercial and public buildings: BREEAM-NOR or BREEAM in-use certificate notation of excellent or better.</li></ul> <p>3. Renovated buildings: Major renovations leading to an at least 30% reduction in primary energy demand. For the full building to qualify after renovation, it should meet the criteria under 1. or 2. above.</p> <p>Exclusions: Residential buildings used for leisure (cabins).</p>

## Analytical considerations

- High energy performance in existing buildings is essential for the transition to a low-carbon economy. We believe, the key topics to address from a low-carbon perspective in new construction are energy performance improvement and reduction of emissions associated with building materials. For all buildings, physical climate risk mitigation is crucial to improving climate resilience.

- Although some buildings will be significantly more energy efficient than regulations, the Light green shade reflects that the framework allows for financing of buildings built between 2012 and 2020 with no additional energy efficiency requirements compared to regulation. Indeed, the criteria for existing buildings include mostly buildings only in line with regulations applicable at the time of construction (2012 to 2020), although those built before 2012 need an EPC B. These criteria correspond to the currently available definition of the top 15% of the building stock, which is yet to be officially determined. There is a certain level of uncertainty as to how robust this definition of the top 15% is, although we acknowledge it's the best information currently available.
- For the new residential buildings subcategory, the framework lacks criteria to address emissions related to building materials--typically contributing half of a building's lifecycle emissions in the Nordic context--which we view as a relative weakness. For new commercial buildings, the additional criterion to have an excellent BREEAM-NOR in the design phase contributes to incorporating sustainability in building design, while the BREEAM in-use certification should contribute to better energy-use management. However, the point-based system of such certifications does not guarantee a low-climate-impact building.
- Property renovation and improvement are important for the low-carbon transition. We view renovations leading to primary energy savings of at least 30% as a solid ambition.
- Buildings with fossil fuel heating will not be financed under the framework. We view positively that cabins are excluded, since energy building requirements do not apply to them in most cases, having been purposely built to support energy generation with fossil fuels.
- The framework does not have specific criteria related to mitigation of physical climate risks of the financed assets, nor screening for highly exposed assets. In general, buildings are highly exposed to physical climate risks, and while building regulations currently consider such risks in Norway, there is no guarantee that they are properly addressed. An increase in precipitation and flooding are key risks in the Norwegian context.

Sustainable agriculture

Assessment

 Light green

Description

Loans provided to finance environmentally responsible agriculture projects and assets, which meet either of the criteria set out below:

1. Organic farming:

- Farming using ecologically based pest controls and biological fertilizers derived largely from animal and plant waste, certified according to national legislation or by Debio.
- Suppliers of fertilizers and soil improvement products, which satisfy the Norwegian regulations on fertilizers and soil improvement products of organic origin.

2. Agriculture and farming activities:

- Roof for slurry/manure-pit to prevent run-off.
- Storage for dry manure, trailers for manure-spreading, and hose-spreader for targeted manure-spreading.
- Ditches for drainage of rainwater.
- Equipment for optimized fertilization to avoid oversupply of nitrogen and run-off.
- N-sensors, measuring and recording nitrogen levels in soil, enabling guided and precise application of manure.
- GPS systems for tractors to enable guided soil treatment and fertilization, applying nutrients only in spots where there is a recorded need.
- Equipment and retrofitting to enable the transition from fossil to nonfossil fuels for heating.

3. Renewable energy projects and assets for local power production:

- Solar power, including installation of solar panels on roof tops or the ground.
- Wind power, involving onshore wind turbines installed at the farm.
- Bioenergy using locally sourced residues/bio-waste as feedstock.

4. Energy efficiency and pollution prevention and control projects:













- Replacing diesel generators with electricity from the grid.
- Installing central operational control systems in buildings.
- Procurement of electric machinery traditionally run on fossil fuels.
- Local energy efficiency solutions, such as waste heat from nonfossil sources.

**Analytical considerations**

- In 2022 about 9.51% of Norway's total GHG emissions were agricultural. Direct emissions from the sector are primarily methane from livestock production, followed by nitrous oxide from fertilizers and crop production. Fossil fuel machinery represents a smaller source of emissions. From a value-chain perspective, a key driver of emissions globally is land use change associated with the production of animal feed. Animal-based food (particularly livestock, but also dairy) tends to have a much higher carbon footprint than plant-based food. Dietary changes are a key avenue for reducing emissions from the sector. Locally, the agricultural sector has other impacts on the environment, such as nitrogen run-off from agricultural land and loss of soil nutrients.
- The sustainable agriculture category includes a variety of projects that will contribute to on-farm environmental improvements. Electrification and renewable energy are part of a low-carbon future, but eligible farming includes both livestock production and dairy, which are emissions intensive. Therefore, the Light green shade reflects that, overall, the financed projects, notably organic agriculture and organic fertilizer production, fall short of representing significant steps for transitioning the agricultural sector. Although the renewable energy and electrification projects, when viewed independently, are typically considered Dark green, we assess the majority of eligible activities as Light green because they represent short-term measures to reduce agriculture's environmental impact without being long-term, low-carbon solutions. The issuer has not provided details on the allocation of proceeds within the project category.
- We regard as favorable a project category that includes obtaining certification from recognized authorities, in this case the Norwegian Debio certification, which aligns with EU legislation on organic products. Organic farming has broad environmental benefits but its overall impacts on GHG emissions remain uncertain. Fossil fuel machinery will not be financed. Waste-based organic fertilizers contribute to lower upstream emissions and promote the use of waste resources effectively compared to synthetic fertilizers. ASbank does not seem to engage with clients to manage their lifecycle emissions.
- Our understanding is that the solar energy financed is expected to be on rooftops or noncultivated and forest-free fields, which has a limited local environmental impact. Wind power projects on land can have controversial and negative impacts on biodiversity, which need to be carefully managed. ASbank has addressed some of these concerns by emphasizing that its financing is directed toward smaller windmills on private property. These smaller-scale projects are generally less controversial and carry fewer environmental challenges compared to larger projects. For bioenergy projects, the issuer intends to fund the use of locally sourced residues/bio-waste as feedstock, such as waste wood, which is positive.



## S&P Global Ratings' Shades of Green

Assessments					
 <b>Dark green</b>	 <b>Medium green</b>	 <b>Light green</b>	 <b>Yellow</b>	 <b>Orange</b>	 <b>Red</b>
<b>Description</b>					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
<b>Example projects</b>					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

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

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

# Related Research

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

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## Second Party Opinion: Askim & Spydeberg Sparebank (ASbank)'s Green Bond Framework

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