S&P Global Ratings

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Second Party Opinion

JBF Sparebank Green Bond Framework

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Location: Norway **Sector:** Banking

Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

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

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

Loans for ownership and renovation of green buildings contribute to the transition to a low-carbon society. High energy performance in existing buildings plays a vital role in this transition.

Weaknesses

The eligibility requirements for green buildings do not exceed the regulatory minimum, except for new constructions or buildings completed after 2021. To qualify for financing, buildings must demonstrate energy efficiency relative to the existing building stock in Norway. However, these criteria do not represent substantial progress toward a low-carbon, climate-resilient future.

Areas to watch

Exposure to physical climate risks will not be addressed for eligible projects. The bank does not currently screen mortgage loans for such risks. According to the Eika report, the bank's portfolio faces risks from flooding and avalanches. Based on this report, JBF Bank is working to implement measures to address physical climate risks.

JBF Bank is at the initial stage of evaluating its greenhouse gas (GHG) emissions. This is part of the bank's green transition plan, which is scheduled for completion by 2025.

Eligible Green Projects Assessment Summary

Eligible projects under JBF Sparebank's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Green Buildings	**Light green**
Loans to finance ownership or renovation of residential buildings.	

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

JBF Sparebank (JBF Bank), a savings bank headquartered in Oslo, Norway, is represented in nine cities across the country. It mostly focuses on providing banking services to union customers of Norwegian Railway Union and Norwegian Locomotive Drivers' Union, as well as other workers in the Norwegian railway industry. The bank's loan book mainly consists of residential mortgages. JBF Bank is also a part of the Eika Alliance, which comprises more than 50 local banks, Eika Gruppen AS, and Eika Boligkreditt AS.

Material Sustainability Factors

Climate transition risk

Banks are highly exposed to climate transition risks through their financing of economic activities, which affect the environment. Their direct environmental impact is small, compared with their financed emissions, and mainly stems from power consumption. Generally, policies and rules to reduce emissions could raise credit, legal, and reputation 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

Physical climate risks will affect many economic activities because climate change increases the frequency and severity of extreme weather events. Banks finance a wide array of business sectors exposed to physical climate risks. However, although climate change is a global issue, weather-related events are typically localized, so the magnitude of banks' exposure is linked to the geographic location of the activities and assets they finance. Similarly, if banks' physical infrastructure and branches are exposed to physical risks, this may disrupt their ability to serve clients in the event of a natural catastrophe. Key risks in Norway relate to an increase in extreme precipitation and flooding.

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 for the most-vulnerable members of the population, remains a challenge for the banking industry. Structural issues such as poverty, the informal economy, and lack of financial literacy partly limit access to financial services. However, banks have many opportunities to support economic development through financial inclusion, including by using new technologies.

Issuer And Context Analysis

The project category within the financing framework--green buildings--targets climate transition risk, which we consider to be one of the most important sustainability factors for JBF Bank. Given that green buildings are susceptible to the impacts of climate change, physical climate risk also emerges as a significant risk within the context of the framework.

JBF Bank's sustainability strategy is in a nascent phase. The bank is working on its sustainability strategy, which is focused on the UN's Sustainable Development Goals (SDGs), such as gender equality, decent work and economic growth, and climate action (SDGs 5, 8 and 13). Additionally, JBF Bank is committing to several sustainability objectives, including aiming to achieve Net Zero GHG Emissions by 2050, for both own and downstream operations, and developing a Green Transition Plan by 2025. It also aims to prepare for the Corporate Sustainability Reporting Directive (CSRD) by 2025 and increase its share of green product offerings. However, progress toward these targets is still in its early stages. The bank is part of the Eika Alliance, which fosters collaboration and discussion between members about sustainability strategies, initiatives, and reporting. Through the development of systems, tools, and expertise, Eika Gruppen supports JBF Bank in its sustainability efforts. For example, it provides support with green products offerings and assists JBF Bank with sustainability reporting, risk assessment tools, and training programs.

JBF Bank is currently in the preliminary stages of evaluating its GHG emissions. Estimating its GHG emissions is part of JBF Bank's green transition plan, which will be finalized by 2025. The methodology and scope of the emissions calculation are not yet clear. Nonetheless, the bank promotes the reduction of GHG emissions by offering green loans that have favorable interest rates. Mortgage loans comprise the bulk of JBF Bank's lending portfolio. Therefore, it focuses on offering green mortgage loans customers who own energy-efficient homes classified as A or B. JBF Bank also offers green car loans to encourage the purchase of electric vehicles rather than vehicles powered by fossil fuels. Furthermore, JBF Bank offers green rehabilitation loans, to encourage owners of older residential buildings to invest in energy-saving measures, such as installing insulation or reducing building energy consumption. For its own operations, the bank is implementing guidelines for paper use, waste sorting, and recycling electronics, promoting eco-friendly products, and prioritizing virtual meetings to minimize driving and air travel. In 2021, JBF Bank was certified by Eco-Lighthouse, a national environmental certification scheme that is supported by the Norwegian Ministry of the Environment and endorsed by the EU.

Currently, JBF Bank conducts climate risk assessments only for corporate customers, which represent a small proportion of its loan portfolio. Climate risk is therefore not included in the screening process for most of the loans financed under the framework. Corporate customers are assessed using parameters that cover environmental and climate data points, and then classified into different risk categories. In terms of physical climate risk, the bank has indicated that it does not consider physical climate exposure in the selection process for its financed green loans, which constrains our assessment. Nonetheless, we note that JBF Bank has begun to assess its portfolio's exposure to physical risks--an Eika report reveals that JBF Bank is primarily exposed to flooding and avalanches.

Alignment Assessment

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

Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

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

✓ Use of proceeds

JBF Bank will allocate an amount equal to the net proceeds from instruments issued under its green bond framework to finance eligible projects, which promote the transition to a low-carbon economy and climate-resilient future. The issuer distinguishes between buildings constructed before 2021 and those built after 2021 and includes renovated buildings. The green buildings project category excludes residential buildings used for leisure, such as cabins. Please see the section "Analysis of Eligible Projects" for more information on our analysis of the environmental benefits of the expected use of proceeds.

✓ Process for project evaluation and selection

JBF Bank has established a Green Bond Committee (GBC) consisting of members of the bank's executive management. The GBC is responsible for setting the criteria for eligible project and selecting eligible projects. Some environmental and social risks are screened as part of JBF Bank's credit approval process, and further mitigated by Norwegian regulation, such as the Nature Diversity Act, which regulates biodiversity, endangered species, and protected areas; and the Planning and Building Act, which aims to promote sustainable development and includes requirements on the protection of valuable land. The issuer states that green bonds will not be used to finance loans to customers linked to fossil energy extraction and/or generation; production, research, or development in the weapons and defense systems sectors; potentially environmentally negative resource extraction; gambling; pornography; or tobacco.

✓ Management of proceeds

The allocation of the net proceeds will be tracked to ensure that they exclusively finance eligible projects. Furthermore, under the framework, the bank will ensure that the value of the green loan portfolio exceeds, at all times, the value of outstanding green bonds. If green loans fail to meet the eligibility criteria, the GBC will replace them with other eligible green loans. Unallocated proceeds will be managed in accordance with JBF Bank's treasury department's policy for short-term investments, as part of regular liquidity management.

✓ Reporting

The issuer commits to reporting annually the allocation of proceeds and impact of the green financing instruments issued under the framework and to publish the report on its website as long as these instruments are outstanding. This report will include the aggregate size of the identified green loan portfolio, the nominal amount of green bonds outstanding, the share of green loans financed by green bonds, and the amount of net proceeds awaiting allocation. In addition, the issuer will report the actual environmental impact of projects as long as the instrument is outstanding. We view as positive that the issuer will align its impact reporting with 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.

JBF Bank expects to allocate 100% of proceeds to refinancing the projects that meet eligibility criteria under the "green buildings" category.

Overall Shades of Green assessment

We assess the framework as Light Green, based on the project category detailed below, and consideration of the environmental ambitions reflected in JBF Bank's Green Bond 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
Light green	Loans provided by JBF Bank to finance ownership or renovation of residential buildings which meet either of the criteria set out below: 1) 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. 2) Buildings built before 2021: Energy Performance Certificate A, or alternatively, buildings within the top 15% of the national stock in terms of primary energy demand, defined as buildings built according to Norwegian building codes of 2010 (TEK10) or 2017 (TEK17). Buildings built prior to 2012 must obtain an Energy Performance Certificate of B or better. 3) Renovated buildings: Major renovations leading to a reduction in primary energy demand of at least 30%. For the full building to qualify after renovation, it should be expected to meet the first or second criteria above.

Analytical considerations

- For existing buildings, high energy performance is important to the transition to a low carbon economy. Mitigating physical climate risks is also essential for enhancing climate resilience across all buildings. Renovating existing properties can also lead to substantial reductions in associated emissions.
- The Light Green shade reflects that the framework allows for financing of buildings built between 2012 and 2020 and imposes no additional energy efficiency requirements beyond those already required by Norway's buildings regulation. According to the issuer, these buildings will receive most of the financing. There is no official definition of what constitutes a building in the top 15% of Norwegian building stock; currently, JBF Bank relies on a definition established by an independent expert that has conducted an energy audit. While this represents the best information currently available, the lack of certainty regarding the robustness of this definition constrains our assessment. We note that JBF Bank commits to adopting the new national definition of the "top 15%," once it has been established.
- In the transition to a low-carbon society, renovating and upgrading existing properties is important. Renovations that achieve at least a 30% reduction in primary energy consumption demonstrate a solid commitment and constitute a Medium Green aspect

within the framework. However, JBF Bank has indicated that such projects are expected to constitute only a minor portion of the allocated proceeds.

- Loans for buildings that use fossil fuel heating will not qualify for financing under this framework. However, the buildings to be financed are all in Norway, where the use of fossil fuel heating for most buildings is prohibited by law. The legal restrictions on energy use do not apply to cabins, which may still use fossil fuels; cabins are therefore excluded from the framework. Additionally, cabin development poses risks to biodiversity and leads to indirect emissions from the construction of supporting infrastructure.
- The framework lacks specific criteria for mitigating the physical climate risks associated with financed assets, which we view as a limitation for our shading considerations. Buildings are particularly vulnerable to such risks, and while building regulations do consider these factors to some extent, there is no assurance that they will be adequately addressed. In Norway, an increase in precipitation and flooding represents a significant risk.
- Given the substantial climate impact linked to new building projects, especially those related to embodied emissions, it is essential for these to be constructed with the goal of minimizing emissions from materials. However, the current framework lacks specific criteria to address emissions associated with the building materials used for buildings built in 2021 or later. This limits our assessment to Light Green for this subcategory. In the Nordic context, building material emissions typically account for half of a building's life cycle emissions.

S&P Global Ratings' Shades of Green

	Dark green	Medium green	Light green	Yellow	Orange	Red
Assessments	**Dark green**	**Medium green**	**Light green**	**Yellow**	**Orange**	**Red**
Description	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.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

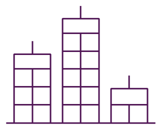
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

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).

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs	
Green Buildings	 **11. Sustainable cities and communities***	 **13. Climate action**

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- SPO Spotlight: Second Party Opinions, March 28, 2024
- 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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