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Second Party Opinion

Romerike Sparebank's Green Bond Framework

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Location: Norway **Sector:** Banks

Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

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

See Alignment Assessment for more detail.

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

Romerike Sparebank will likely allocate most of the issuance proceeds to financing green buildings, thereby supporting the transition to a low-carbon society. High energy performance of buildings in the bank's lending portfolio is important, especially considering most of the bank's loan book consists of mortgage loans.

Weaknesses

Eligibility requirements for green buildings do not always exceed the regulatory minimum. Most proceeds will finance residential buildings constructed between 2012 and 2020. Some of these buildings will have an energy performance standard that is in line with the regulatory requirements in place at the time of construction (TEK10 or TEK17).

Eligible green projects include buildings with in-use certifications. Such certifications may contribute to lower energy consumption, but they do not necessarily specify minimum energy-saving thresholds. This limits our insight into the projects' overall environmental benefit.

Areas to watch

Romerike Sparebank has yet to measure and assess its financed emissions, a highly material factor for banks, in our view. As one of the partner banks of the Eika Alliance, Romerike Sparebank is currently working with other Norwegian financial institutions on developing tools for calculating these emissions.

The framework's eligibility criteria for the energy efficiency projects are broadly defined. Romerike Sparebank will lend directly to pure-play energy efficiency services companies that could then allocate the funds across their activities, challenging the measurement of the exact energy performance improvement potentially financed.

Eligible Green Projects Assessment Summary

Eligible projects under Romerike 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 the ownership or renovation of residential, commercial, and public buildings built before and after 2021 and renovated buildings.	

Energy Efficiency	**Medium to Light green**
Loans to pure-play energy-efficiency services companies.	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

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

Company Description

Norwegian regional bank Romerike Sparebank provides commercial banking services to individual and corporate customers. At Dec. 31, 2023, the bank's gross customer loans for the bank's own balance sheet amounted to approximately Norwegian krone (NOK) 13 billion (about €1.2 billion). This increases to approximately NOK20 billion (about €1.8 billion) when amounts transferred to Eika Boligkreditt AS (EBK) are included. Residential mortgages made up almost 70% based on the bank's own balance sheet (commercial loans 31%) and 76% when loans transferred to EBK are included. The bank currently has more than 28,000 customers, of which 25,000 are private customers and the remaining are legal entities. Also, Romerike Sparebank is one of the largest partner banks of the Eika Alliance, a group of Norwegian savings banks that ensures coordination between financial institutions on sustainability among a broad range of topics.

Material Sustainability Factors

Climate transition risk

Banks are highly exposed to climate transition risk through their financing of economic activities, which affect the environment. Their direct environmental impact is small compared with their 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 Europe, 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 risk. 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, banks' physical footprint (such as branches) may also be exposed to physical risks that might disrupt their ability to service clients in the event of a natural catastrophe. Banks could 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 physical climate 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 to the most vulnerable members of the population, remains a challenge for the banking industry. Structural issues such as poverty, an informal economy, and a lack of financial literacy partly limit access to financial services. However, banks have considerable opportunities to support economic development through financial inclusion, including by using new technologies.

Issuer And Context Analysis

The framework's eligible project categories, green buildings and energy efficiency, aim to address climate transition risk, which we consider one of the most material sustainability factors for Romerike Sparebank. Both green buildings and energy efficiency projects can help to manage energy consumption, thereby reducing transition risks for the bank. Green buildings are susceptible to the impacts of climate change, but physical climate risk also emerges as a significant risk within the context of the framework.

A key element of Romerike Sparebank's sustainability strategy is to support the local economy's transition to a low-carbon future. At 2% of total lending in 2023, green loans represented a small portion of Romerike Sparebank's business. That said, through its green loans, the bank is working to reduce its downstream emissions. For example, the bank offers green mortgage loans at lower interest rates than those for traditional mortgages. Additionally, Romerike Sparebank offers loans for energy efficiency measures that have preferential pricing, encouraging borrowers to rehabilitate or upgrade an older home to become energy efficient through implementation of the energy-saving measures (0% of total lending). Furthermore, the bank collaborates with communities to support local development, including through establishment grants. For instance, in 2023 Romerike Sparebank provided NOK1 million (€0.09 million) of a NOK3.4 million (€0.3 million) joint sustainability fund with the Municipality of Lillestrøm to finance projects with a climate focus. The bank also plans to provide support in a new, similar NOK3 million fund in 2024 on a 50:50 basis with Lillestrøm.

Although Romerike Sparebank plans to set greenhouse gas (GHG) emission reduction targets by 2025, the bank's evaluation of its environmental footprint is still at an early stage. The bank's sustainability reporting is very compact and does not yet include information on scope 1, 2, and 3 emissions. The bank is currently using a tool from the Eika Alliance to estimate its own and financed emissions, and it will report the findings for the first time as part of its 2024 reporting cycle.

Because the bank's sustainability risk assessments currently apply to corporate customers (24% of loans) only, they are not applied for most loans financed under the framework. The majority of loans financed under the framework relate to residential mortgages that are not covered by this assessment. The bank's sustainability assessment for corporate customers relies on a customer self-assessment for both climate transition risk and physical climate risk. Additionally, the bank has prepared a framework to help its advisors conduct the sustainability assessment for customers in high-emitting sectors such as construction, property, and agriculture, which cover about 90% the business portfolio. This framework helps assess key topics such as undeclared work, waste handling, physical risks, and environmental breaches, if any. We view positively that physical risk exposure is assessed for the entire portfolio, leveraging quarterly real estate data from Eiendomsverdi to monitor mortgage collateral. The bank acknowledges that its region of operations is particularly exposed to floods and landslides.

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 have a green shade, and the issuer commits to allocate the net proceeds issued under the 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.

Romerike Sparebank will allocate an amount equal to the net proceeds from instruments issued under its green bond framework to finance or refinance selected green loans that promote the transition to a low-carbon economy and climate-resilient future. The project categories consist of green buildings, which the bank identifies as contributing to climate change mitigation and climate change adaptation, and energy efficiency, contributing towards climate change mitigation. We note that the framework does not reference a look-back period for refinanced eligible projects as is recommended by the Principles.

✓ Process for project evaluation and selection

The framework outlines the process to select and approve eligible projects. The Green Bond Committee (GBC), which consists of members from the bank's executive management and its treasury department, is responsible for setting the eligibility criteria and will select the eligible loans for the Green Loan Portfolio. The framework also has a clear exclusion list outlining 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, with the bank maintaining a register of identified green loans. Furthermore, 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 the regular liquidity management policy of the bank's treasury department, covering short-term investment such as government bonds, municipality bonds, covered bonds, senior bonds issued by savings banks. Furthermore, the investments are not made in shares.

✓ Reporting

The bank commits to disclosing the allocation and impact of proceeds annually within its green bond report on its website, until full allocation of the proceeds. The allocation report will include the size of the identified Green Loan Portfolio per category, alongside the split between residential, commercial, and public buildings, the nominal amount of green bonds outstanding, the share of the green loans currently financed by green bonds, and the amount of net proceeds awaiting allocation (if any). It will also report on the aggregate environmental impacts of green loans financed by green bonds, as well as the assumptions and calculation methodologies. We view positively that the bank's impact reporting will be in line with ICMA's Harmonized Framework for Impact Reporting.

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.

Romerike Sparebank expects to allocate the majority of the issuance proceeds to the green building category, primarily residential mortgages (75%-85%) and commercial buildings (10-20%), with a small minority to the energy efficient project category. One hundred percent of the proceeds is expected to be used to refinance existing loans.

Overall Shades of Green assessment

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

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 financing the residential, public, and commercial buildings (excluding those for leisure, cabins, or similar) that meet either of the following criteria: 1) Buildings built in 2021 or later: • **Residential buildings:** Primary energy demand (PED) is 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures. • **Public and commercial** buildings: EPC A, or BREEAM-NOR / BREEAM In-Use "excellent" or better. 2) Buildings built before 2021: • **Residential buildings:** Energy Performance Certificate (EPC) 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 minimum EPC B. • **Public and commercial buildings:** EPC A or B, or BREEAM-NOR / BREEAM In-Use "excellent" or better. 3) Renovated buildings: • Major building 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 two criteria listed above. • Public and commercial buildings: At least 70 % (by weight) of the non-hazardous construction and demolition waste generated is prepared for material recovery.

Analytical considerations

- For existing buildings, high energy performance is important to the transition to a low-carbon economy. Mitigating physical climate risk is also essential for enhancing climate resilience across all buildings. In addition, renovating existing properties can 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 with no additional energy efficiency requirements compared with the local regulation. The majority of financing will go towards the residential buildings built over this period. Some of these buildings will have energy performance in line with the regulatory requirements in place at the time of construction (TEK10 or TEK17). The use of TEK10 and TEK17 as a proxy for the top 15% of the national building stock is based on the best currently available information since an official definition has yet to be determined. There is some uncertainty as to how robust this definition of the top 15% is, but it is widely considered the best information currently available. Positively, the bank commits in the framework to update its definition of the top 15% once a new national definition is determined.
- Residential buildings built since 2021 will be markedly more energy efficient than required by Norwegian regulation. The framework criteria require such buildings to be 10% lower than NZEB. Similarly, public and commercial buildings built since 2021 may be financed if they receive EPC A, corresponding to some of the most energy efficient new buildings in Norway. Public and commercial buildings built before 2021 may be financed if they have either an EPC A or B, which is expected to correspond to at least the top 15% of the existing Norwegian building stock (which is still pending formal definition).
- Green building certifications somewhat mitigate climate and environmental risks, depending on the version used and the points obtained during the process. Commercial and public buildings, built both before and after 2021, may be financed if they have received either a BREEAM-NOR or BREEAM In-Use certification of excellent or higher. BREEAM-NOR In-Use incorporates sustainability in the design phase of the building, whilst BREAAM-In Use focuses on the management of energy, water, and waste, to name a few. However, the point-based system does not guarantee that the building will be low carbon, and the certifications don't require energy-efficiency gains beyond the condition that its use be monitored. The bank expects that only a small portion of proceeds will be allocated to commercial buildings.
- 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. Although we would assess this aspect of the framework as Medium green, they do not influence the overall shade of this project category since Romerike Sparebank indicated that they are unlikely to constitute more than a minor portion of the allocated proceeds.
- Loans for buildings that use fossil fuel heating will not qualify for financing under this framework. The buildings to be financed are all in Norway, where the use of fossil fuel heating for most buildings is prohibited by law. We view positively that cabins are excluded; energy building requirements do not apply to most cabins since they are generally built to use electricity generated with fossil fuels.
- Romerike Sparebank considers physical climate risks related to properties as part of its credit assessments. Although the framework does not outline specific criteria related to physical climate risk, Romerike Sparebank evaluates its relevant exposure using valuation data from Eiendomsverdi that it obtains on a quarterly basis.

Energy efficiency

Assessment	Description
Medium to Light green	Loans financing corporates with at least 90% of its business (measured by revenues) related to offering energy efficiency solutions including: • Smart house systems (hardware and software), such as smart lightening and smart metering to control and reduce energy consumption in private homes and public and commercial buildings. • Smart cities, such as lighting management system using the internet of things (IoT) to make safer and more energy efficient roads, sports facilities, bridges, tunnels, urban spaces, and parks, among other vital infrastructure. • R&D expenses related to developing more environmentally friendly energy technology and solutions, including but limited to solar, wind, wave and geothermal power, carbon capture and storage (CCS), battery, robots, and sensors.

Analytical considerations

- Activities that seek to improve energy efficiency are necessary to transition to a low-carbon economy because they allow for a reduction in overall energy consumption and a decrease in primary energy demand. Romerike Sparebank will use proceeds under this category to lend to pure-play energy efficiency companies, defined as companies that derive more than 90% of their revenue from energy-efficiency solutions.
- We assess the energy efficiency project category in interval shades from Medium to Light green due to the broad range of potential activities that could be financed. This broad nature is underscored by the bank's plan to provide general lending to pure-play energy efficiency companies, rather than against specific projects. One company the bank has identified as eligible for lending under this category provides smart home technology solutions as well as lighting control systems for municipalities and infrastructure companies. More efficient lighting and energy optimization systems may be assessed as having a darker shade given their clear environmental benefits and ability to help reduce energy use and therefore emissions.
- Some loans may support R&D expenses that support the development of solutions we would assess as Dark green, such as renewable energy, which we see as consistent with the transition to a low-carbon climate resilient (LCCR) economy.
- CCS is also an important element to reach global climate roles, and R&D for such activities is crucial to in the transition to an LCCR future. Still, CCS contains material environmental hazards if not managed properly, including potential leakage of CO2 to the atmosphere or seepage into the groundwater, and vulnerability to physical climate risks and natural disasters. The bank does not explicitly screen for such risks, reflecting that such projects are still at the R&D stage. Loans may also support battery R&D expenses, which help support the climate transition as they can support electricity security as well as electrification, both of which are crucial for the energy transition. Other R&D expenses related to robots and sensors have the potential to improve energy efficiency.
- Romerike Sparebank confirmed that improvements in energy efficiency will not be applied to fossil fuel generation assets, which we would not consider to be green.

S&P Global Ratings' Shades of Green

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

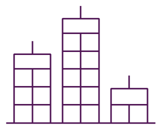
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

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**
Energy efficiency	 **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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