Verd
Boligkreditt

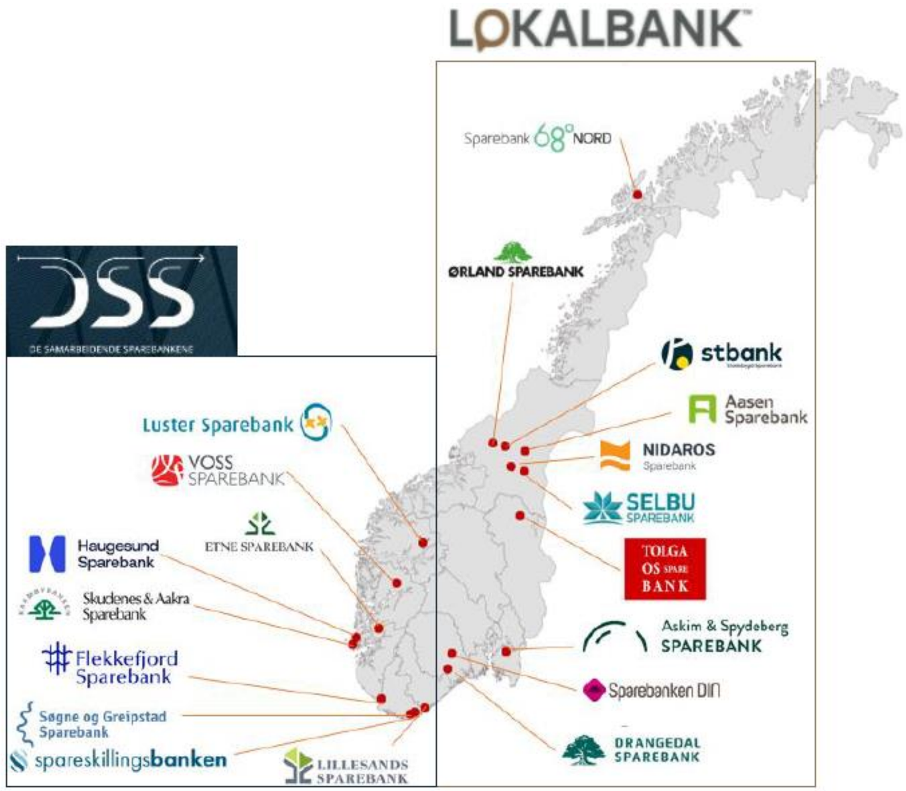
Green Bond Framework

September 2023

Content

About Verd Boligkreditt

Verd Boligkreditt AS («Verd») is a jointly owned covered bond issuer owned by the 18 savings banks Aasen Sparebank, Askim & Spydeberg Sparebank, Drangedal Sparebank, Haugesund Sparebank, Lillesands Sparebank, Luster Sparebank, Nidaros Sparebank, Selbu Sparebank, Skudenes & Aakra Sparebank, Sparebank 68° Nord, Sparebanken Din, Spareskillingsbanken, Stadsbygd Sparebank, Søgne og Greipstad Sparebank, Tolga-Os Sparebank, Voss Sparebank og Ørland Sparebank.



Verd was established to offer the owner banks' customers financing of well-secured mortgages, and the business model is limited to the purchase of first lien residential mortgages and collective loans to housing cooperatives originated by the owner banks. These purchases are financed through the issuance of covered bonds (OMF). Verd holds a concession to operate as a credit institution with the right to issue covered bonds, where the collateral mainly consists of residential mortgages transferred by the owner banks and meet a wide range of eligibility criteria. The covered bonds pose a very small risk of loss for the investors, which means that Verd can borrow money at a lower rate than what the owner banks are able to on their own.

Verd has a "loan servicing and transfer agreement" with all 18 owner banks that dictates customer relations and maintenance of the mortgage portfolio on behalf of the company. Customers who have their mortgages transferred to Verd will hardly notice that their mortgage is transferred, other than a notification letter that is sent from shortly after the transfer and a specification in their annual tax assessment from the authorities. The customers relate to their bank as they have always done, and the owner banks manage the mortgage as if it were their own. Verd's owner banks are local savings banks with history back to 1850 and have a strong focus on social responsibility.

Verd's owner banks are very well capitalised, have high deposit to loan ratios, and hold strong positions in their competitive markets. The owner banks have a great in-depth knowledge of their market areas and can show a long history of low losses.

Verd is in phase of strong growth following the addition of ten new owner banks from the LOKALBANK alliance, which will gradually transfer their mortgage portfolio from a competing covered bond company.

Sustainability at Verd Boligkreditt

Verd's owner banks are savings banks with a strong focus on social responsibility on their operating area, and in the summer of 2023 Verd's board of directors decided that a sustainability strategy should be drawn up for the company. Sustainability is increasingly important for Verd's stakeholders, and expectations from Verd's owner banks, our joint customers, and perhaps especially debt investors are increasing. A conscious relationship with sustainability is also important for the company's risk management.

Link to the UN Sustainability Development Goals

The savings bank model is founded on sustainability, and there is a clear red thread from the history of the savings banks and the sustainability strategy of Verd. Previously sustainability challenges were of a more local nature, while today such challenges are more global in nature. Therefore, we link our sustainability strategy to the UN's Sustainability Development Goals (SDGs).

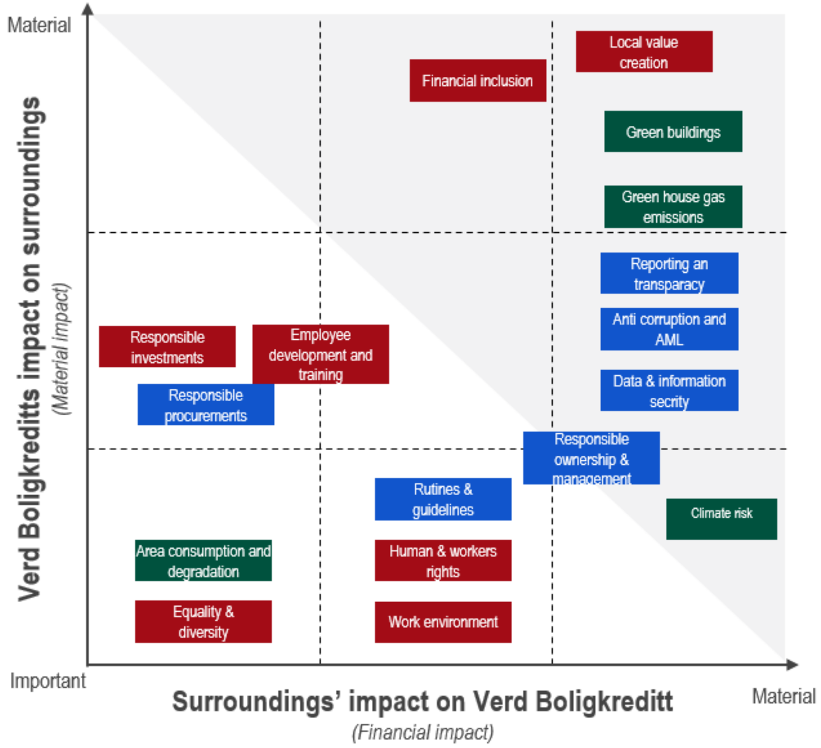
Verd can influence several of the 17 SDGs, but have chosen to highlight two where we have the greatest influence in the direction of a more sustainable society:

11 SUSTAINABLE CITIES AND COMMUNITIES	**Target 11:** **Sustainable cities and communities**	Make cities and human settlements inclusive, safe, resilient, and sustainable
13 CLIMATE ACTION	**Target 13:** **Climate action**	Take urgent action to combat climate change and its impacts

Material sustainability topics

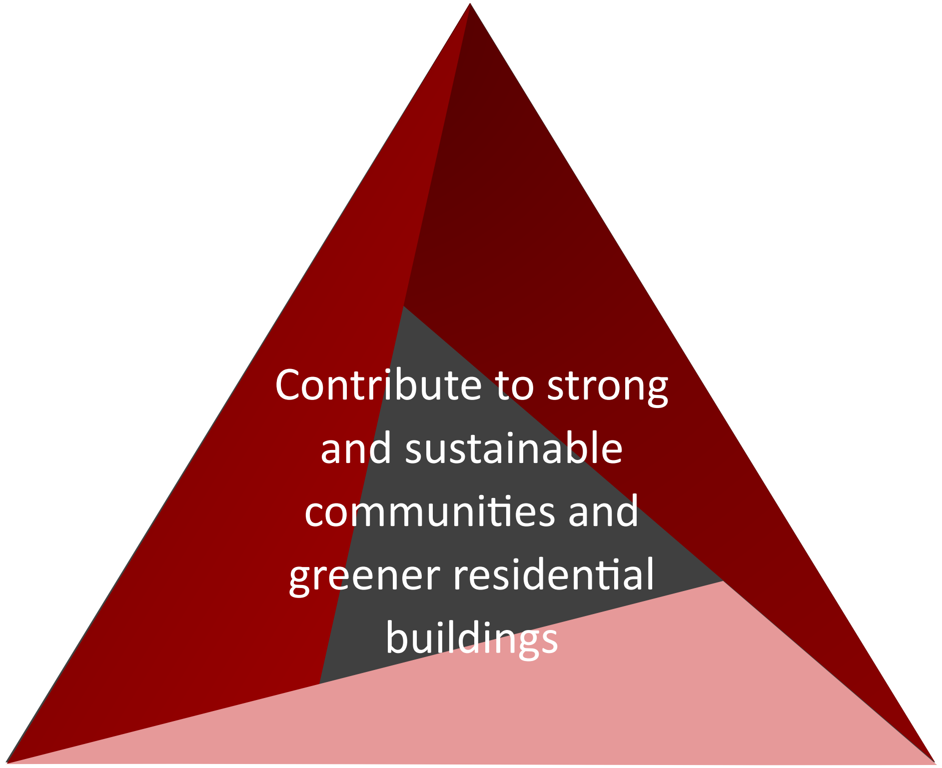
As part of the strategic analysis, Verd has carried out a double materiality analysis, in which several stake-holders from different parts of the value chain have been involved. The purpose is to map the areas where Verd affects its surroundings, as well as areas where Verd is affected.

Topics such as *Local value creation*, *Green Buildings* and *GHG emissions* are assessed as most material in both dimensions.



Focus areas

We intend to contribute to the selected SDGs by focusing on three areas:



Focus area 1: Contribute to sustainable local communities

Through our financial business model, Verd aims to help our owner banks by providing stable, long-term and favorable funding, thereby enabling them to provide financial services to the local communities in which they operate. We will seek to use our financial platform to stimulate to the green transition.

Focus area 2: Reduce greenhouse gas emissions in our loan portfolio and manage the impact from climate change

To prevent further climate change Verd must, as well as other parts of our society, contribute to cut greenhouse gas emissions from our business activities. This means reducing the financed emissions through our mortgage portfolio, where collaboration with our owner banks is key to achieving results. We will commence measuring our scope 1 and 2 emissions in 2023 and our scope 3 emissions in 2024.

We will also screen our collective mortgage portfolio and help our owner banks mitigating the increased physical climate risk related to homes that secure our mortgages.

Focus area 3: Transparent corporate governance and strong corporate culture

Since our business practices relies on trust, good ethics and corporate governance is key for Verd. Preventing financial crime and anti-money laundering is high on our agenda. Furthermore, our business partners ethics and operating practices is also very important to Verd.

To achieve our ambitions of having high degree of confidence from our external stakeholders, we are dependent on a corporate social culture which promotes employees which adheres to our code of conduct and takes responsibility for developing Verd's sound and sustainable operating practices.

Verd and Green Bonds

With this Green Bond Framework (the "**Framework**") we want to promote our ambition of contributing to a sustainable development through the financing of energy efficient buildings.

This Framework is aligned with the guidelines of the Green Bond Principles, published by the International Capital Markets Association ("**ICMA GBPs**") with an updated version in June 2022[1]. Each Green Loan category has been mapped against the different categories of the ICMA GBPs, the UN Sustainable Development Goals (the "**UN SDGs**"), as well as the relevant economic activities included in the EU Taxonomy. Furthermore, our aim is to always meet best market practices by adhering to relevant standards and guidelines in the green finance market. This Framework may over time be updated, however new versions of the Framework shall have no implications for the Green Bonds issued under this version of the Framework.

Aligned with the ICMA GBP, the Framework defines the criteria for which loans are eligible to be financed by Green Bonds, and it also outlines the process to evaluate, select, track and report on such lending activities. Each Green Bond issued under this Framework will in their relevant transaction documentation refer to this Green Bond Framework. The terms and conditions contained in the underlying documentation for each issued Green Bond will specify the actual terms of the instrument.

1. Use of Green Bond Proceeds

An amount equal to the net proceeds from Green Bonds issued under this Framework will be used to finance a portfolio of loans that promote the transition towards low-carbon and climate-resilient development.

Only such loans that comply with criteria for each of the Green Loans categories listed below are deemed eligible to be financed by Green Bonds ("**Green Loan Portfolio**"). Green Bond proceeds can be used for both the financing of new as well as for refinancing of existing Eligible Green Loans.

For the avoidance of doubt, Green Bonds will not be used 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, gambling, pornography, or tobacco.

[1] Green-Bond-Principles_June-2022-280622.pdf (icmagroup.org)

Green Loan Portfolio

ICMA GBPs category	Eligible Green Loan criteria	UN SDG(s)	EU Taxonomy alignment
Green Buildings	Loans provided to finance ownership or renovation of residential which meets either of the criteria set out below: 1. <u>Buildings built in 2021 or later</u>: Primary energy demand (PED)[2] is 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures[3]. 2. <u>Buildings built before 2021</u>: 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)[4] or 2017 (TEK17)[5] or - Energy Performance Certificate B for buildings built prior to 2012. 3. <u>Renovated buildings</u>: Major renovations leading to a reduction in primary energy demand of at least 30%[6]. For the full building to qualify after renovation, it should be expected to meet the criteria under #1 or #2 above. Exclusions: Residential buildings used for leisure (cabins).	13 CLIMATE ACTION	**Climate Change Mitigation** 7.1 Construction of new buildings 7.7 Acquisition and ownership of buildings 7.2 Renovation of buildings

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[2] The calculated amount of energy needed to meet the energy demand associated with the typical uses of a building expressed in kWh/m2 per year and based on the relevant national calculation methodology and as displayed on the Energy Performance Certificate (EPC).

[3] veiledning-om-beregning-av-primarenergibehov-og-nesten-nullenergibygg.pdf (regjeringen.no)

[4] To ensure TEK10-alignment, we use a conservative 2-year time lag and include buildings built from 2012 and onwards.

[5] Using TEK10 and TEK17 will be replaced with a new national definition of “top 15%” if this is developed.

[6] The initial primary energy demand and the estimated improvement is based on an energy audit conducted by an independent expert. The 30 % improvement results from an actual reduction in primary energy demand, and be achieved through a succession of measures within a maximum of three years.

2. Process for selection and evaluation of eligible Green Loans

To ensure the transparency and accountability around the selection of Green Loans, Verd has established an internal Green Bond Committee (the "**GBC**") which is responsible for this Framework and defining the Green Loan criteria included herein, selecting the loans to be included in the Green Loan Portfolio, as well as future oversight and requirements for updates of the Framework. The GBC will consist of members from the Executive Management in Verd and be responsible and will keep a register of the portfolio of identified Eligible Green Loans. The GBC. All decisions will be made in consensus.

All loans in Verd, including the Green Loans have been and will be originated in line with the owner banks' regular and applicable credit approval processes. Hence, the loans that are transferred to Verd are already screened for environmental, social and governance (ESG) risks[7].

To be included in the Green Loan Portfolio each loan must meet the Green Loan criteria defined in the Use of Proceeds section of this Framework. The GBC holds the right at their own discretion to not include loans in the Green Loan Portfolio, or exclude any loans already included in the Green Loan Portfolio. In the event a loan already included in the Green Loan Portfolio no longer meets the criteria in this Framework in the opinion of the GBC, such loan will be removed from the Green Loan Portfolio.

To ensure traceability, all decisions made by the GBC will be documented and filed.

3. Management of proceeds

The net proceeds from issued Green Bonds will be allocated toward the financing and refinancing of our Green Loan Portfolio. The proceeds from a Green Bond may either be allocated pro-rata across all the categories included in the Green Loan Portfolio or be allocated in part or in full towards certain Green Loan categories listed under 1. Use of Proceeds above.

Verd will track the allocation of net proceeds from Green Bonds to eligible Green Loans to ensure that net proceeds from Green Bonds only support the financing of Green Loans and that the value of the Green Loan Portfolio at all times exceeds the total nominal amount of Green Bonds outstanding.

If a Green Loan already funded by Green Bonds is redeemed, or for other reasons loses its eligibility in line with the criteria in this Framework, it will be replaced by another qualifying Green Loan as soon as practically possible.

Unless the net proceeds from a Green Bonds are fully allocated at the date of the issue, the net proceeds awaiting allocation to the Green Loans Portfolio will be categorized and reported as "unallocated". Such amount will be managed according to the regular liquidity management policy of our Treasury department. To the extent possible, the exclusions listed in the Use of Proceeds section of this Framework also apply for such temporary holdings of net proceeds.

[7] In principle Verd may refuse a transfer to take place if certain criteria are not met, and in the future Verd may decide to commence screening for certain ESG risks prior to loans being transferred.

4. Reporting

To enable investors and other stakeholders to follow our issuance of Green Bonds, and the developments and impact of our Green Loan Portfolio, a Green Bond Report will be made available on our website. The Green Bond Report will include an “Allocation Report” and an “Impact Report” and will be published annually as long as there are Green Bonds outstanding.

Allocation Report

The allocation report will include the following information.

- The aggregate size of the identified Green Loan Portfolio and the split between each category.
- The nominal amount of Green Bonds outstanding.
- The share of the Green Loan Portfolio currently financed by Green Bonds.
- The amount of net proceeds awaiting allocation (if any).

Impact Report

The impact report aims to disclose the environmental impact of the Green Loans financed by Green Bonds.

Impact reporting will be aggregated for each Green Loan category, and depending on data availability, calculations will be made on a best intention basis with full transparency on assumptions and calculation methods. Verd may rely on external parties to assist with impact calculation and analysis. Verd will align, on a best effort basis, our impact reporting with the portfolio approach described in ICMA’s “Handbook – Harmonized Framework for Impact Reporting” (June 2023)[8].

The impact assessment will be based on the metrics listed below:

- **Green Buildings:**
  - Estimated annual energy consumption (kWh/m2)
  - Avoided GHG emissions (tCO2e/year) compared to baseline[9]

[8] Handbook-Harmonised-framework-for-impact-reporting-June-2023-220623.pdf (icmagroup.org)

[9] Using the grid factor recommended in the Nordic Position Paper on Green Bonds Impact Reporting, clause 22, page 20 (NPSI_Position_paper_2020_final.pdf (kuntarahoitus.fi))

External review

Second-Party Opinion

Verd has engaged S&P Global (“S&P”) to assess the alignment of this Framework with the ICMA Green Bond Principles.

S&P has confirmed such alignment by issuing their Second Opinion (“SPO”), which will be publicly available on our website together with this Framework.

Post-issuance verification

As part of the Green Bond Report being issued no later than 12 months after a Green Bond issue, a limited assurance report will be provided by an independent auditor appointed by Verd confirming that an amount equal to the net proceeds from issued Green Bonds has been allocated in accordance with this Framework.

Furthermore, Verd will provide calculations of the estimated positive environmental impact, and the assumptions used therein, related to the Green Loan Portfolio.

The Green Bond Report will be made available on our website.