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Brage Finans
Green Bond Second Opinion

16th January 2023

Executive Summary

Brage Finans AS is an independent credit institution headquartered in Bergen and owned by 23 Norwegian banks. It provides loans and leases, mainly for cars and equipment, to both private individuals and corporate clients. Corporate clients are mostly small and medium-sized companies across a wide range of sectors, with a very limited exposure to the oil and gas sector (through vehicle financing to companies in the sector).

Some 90% of proceeds under the updated green bond framework will finance loans to electric vehicles and electric machinery (for construction, forestry, and agriculture). In addition to such clean transport and machinery, the framework includes aquaculture and renewable energy. The issuer expects half of proceeds to finance new loans/leases and the other half existing ones. Compared to the 2020 version of the framework, the main change in the 2023 framework is an additional certification requirement for aquaculture facilities (GLOBAL G.A.P.). Meanwhile, the issuer has developed a better system for identifying green assets in its portfolio.

We rate the framework **CICERO Dark Green** and give it a governance score of **Good**. The shading reflects that the framework mainly supports electrification within transportation and other sectors such as construction, forestry, and agriculture, where the financed equipment replaces fossil fuel technologies. Electrification is an essential part of the 2050-solution. In its lending, Brage screens for controversies and assesses risks of significant negative impact to environment, nature, and human rights. The issuer could improve its governance by making its targets on green finance quantified and timebound.

SHADES OF GREEN

°CICERO Dark Green

GOVERNANCE ASSESSMENT

GREEN BOND PRINCIPLES

Based on this review, this framework is found to be aligned with the principles.

Strengths

The focus on electrification across various sectors is a clear strength. By supporting the replacement of fossil fuel dependent vehicles and machinery in construction, agriculture and forestry, the framework contributes to the roll out of 2050 technologies. While electric cars represent a more mature technology, this is less so for trucks and some types of machinery eligible under the framework, and we welcome that only fully electric technologies are eligible. Heavy duty transportation is viewed as a hard to abate sector, and the transition to electrification is therefore vital to achieving a low carbon and climate resilient future.

Based on specific knowledge about financed objects, the issuer is well prepared to report on detailed impacts for each project category. While the issuer does not plan to report on avoided emissions, it has chosen relevant impact indicators. For clean transportation and machinery, the issuer will report on the number of financed low-carbon vehicles and machinery per asset type, on the number of electric vehicles charging points installed and for public transportation, on the increase in passenger capacity coming from electric modes of transport. Reporting will be transparent on methodologies.

Pitfalls

While electric transport solutions are part of a low-carbon and climate resilient future, they entail substantial lifecycle emissions and resource use. In a 2050 future, such issues should be considered when selecting leasing objects, for example emissions and environmental impacts in the production phase. Among other, lifecycle emissions relate both to raw materials sourcing and battery production, as well as the electricity mix in the grid. In addition, the magnitude of the reduction in lifecycle emissions compared to fossil fuel vehicles depends on vehicle seize, weight and power. Within transportation, it should also be noted that the largest amount of carbon savings come from switching from individual modes of transport (e.g., private cars) to mass transit.

For loans and leases to aquaculture, Brage Finans' eligibility criteria to a large extent rely on international standards. While ASC and GLOBAL G.A.P are internationally recognized standards to ensure a minimum level of sustainability, they do not necessarily represent the highest environmental ambitions on all aspects. For example, these certification standards do not adequately safeguard against deforestation risk associated with soy used in salmon feed. We welcome Brage Finans' inclusion of additional soy feed certification to safeguard against such risks. However, a problem with all certification schemes is that major soy producers currently only certify a small share of their production, while the rest may contribute to deforestation. Therefore, demand for soy from Brazil, even if certified, risks displacing non-certified production to new agricultural areas. Certification is hence not seen as a complete safeguard against deforestation risk. A recent effort by companies in the salmon feed supply chain seeks to address the limitations of certification schemes. The Brazilian suppliers of soy protein concentrate to the Norwegian aquaculture industry have committed to not purchase any soy from deforested areas with defined cut off dates. If complied with, this reduces the deforestation risk associated with Norwegian salmon.

While farmed fish has a comparatively low carbon footprint, there are concerns and controversies around negative local impacts on biodiversity as well as animal welfare. These concerns relate, among others, to the generation of marine waste, the spreading of diseases to wild fish and the influence of chemicals on marine environments, in addition to high mortality rates and diseases.

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Company description

Brage Finans AS ("Brage") is an independent credit institution headquartered in Bergen and owned by 23 Norwegian banks. The company offers financing solutions, mainly equipment financing, to both retail and corporate clients, mainly in the form of leasing and secured lending. Brage Finans is present is most present in the Southern part of Norway.

The majority of Brage Finans' lending portfolio is to cars (38%), leasing of machinery and equipment (59.4%) and minor shares of commercial loans (2.6%) and consumer loans (0.03%). Some 70% of the lending portfolio is to private clients, 70% to corporates. The corporate lending portfolio has a very wide sector coverage, including business services, construction, transportation, industry, retail, and aquaculture. Brage does not have any direct exposure to the oil and gas sector.

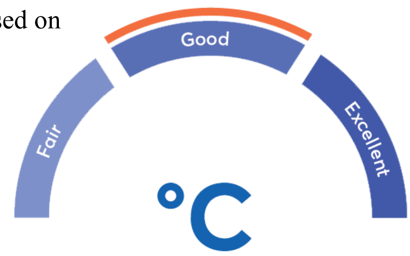
Under its 2020 framework, Brage Finans has raised some NOK 2.25 m, in two issuances in 2022, the first one in June 2022.

Governance assessment

Brage has a target of climate neutrality for its scope 1 and 2 emissions, and purchases offsets for its emissions. Green loans currently accounted for some 16.8% of total portfolio, and Brage wishes to increase this share, also this goal is not quantified nor timebound. For car loans, it has a target that 40% of new car loans should be to electric vehicles.

In its credit process, Brage screens for controversies and assesses risks of significant negative impact to environment, nature, and human rights on a case-by-case basis. The criteria used in this assessment are not public, but the issuer has informed us that it has turned down clients based on significant negative impacts such as pollution.

Planned impact reporting is adequate and Brage is well prepared to report on detailed impacts. The issuer is committed to transparency on methodologies.



The overall assessment of Brage Finans' governance structure and processes gives it a rating of **Good**.

Sector risk exposure

Physical climate risks. Science shows that extreme weather events are becoming more frequent and intense, that incremental climatic changes are highly likely to happen, and that their impacts are expected to grow more severe over the coming years and decades. The impacts of physical risks are uncertain in probability, magnitude, and timing. Hence, through its lending portfolio, although it is limited to specific objects such as vehicles and machinery, the bank could be indirectly exposed to various counterparty risks, which could lead to business disruptions that may impact client creditworthiness and/or reduce the value of leased objects during the leasing period.

Transition risks. Similarly, transition risks are likely wide-ranging due to credit institutions' exposure to multiple sectors and, therefore, clients' exposure to changing regulations, technologies, and market conditions. Growing regulatory and supervisory expectations for greater disclosure and oversight of climate financial risks and civil society focus on the finance sector's contribution to climate change create regulatory, liability, and reputational risks. Residual values of leased vehicles may change due to such regulatory changes.

Environmental risks. As with climate change, nature and biodiversity loss can create physical risks due to loss of critical ecosystem services which can contribute to operational and supply chain disruptions (e.g., via landslides, reduced crop yields, pandemics), while also reducing resilience to physical climate risks. Loan collateral, which in this case is vehicles and equipment, may be exposed to various environmental risks.

Environmental strategies and policies

Brage Finans wishes to promote sustainable development though its operations and products and has a goal to increase the share of green assets in its lending portfolio, which stood at 16.8% as of November 2022. It has a long-term goal that 40% of financing for new cars should to fully electric cars. Brage Finans has a target to achieve climate neutrality for its own operations (scope 1 and 2). Currently, the company purchases offsets to compensate for residual emissions.

Sustainability considerations are integrated in the company's credit policy. The policy excludes customers that violate its ethical principles, are involved in fraud or law violations, as well as the following sectors: extraction of, or power generation based on, coal or oil sands, production or distribution of pornographic material, production, or ownership of mass destruction weapons, such as chemical weapons, biological weapons and cluster bombs, activities linked to corruption or criminal activity, gambling, or tobacco. The credit policy states that the company should be restrictive in offering financing to clients developing or selling products with significant negative impact on the environment, nature or human rights. The risk of such significant negative impact is assessed on a case-by-case basis in the credit process.

Brage Finans finances only specific objects (such as vehicles, equipment, etc.), for which the average lifetime is four and a half year, and the average duration of the financial agreement three years, it does not consider that an assessment of exposure to physical climate risks is relevant.

With regards to own operations, Brage Finans is Eco-Lighthouse certified and reports on own emissions (scope 1 and 2) in line with the GHG Protocol. 2021 emissions were 42% lower than in 2019. With regards to scope 3, it reports on those emissions stemming from waste and business travel, while waiting for a formal reporting standard for financed emission through its loans and leases. Brage participates in a working group with other similar financial institutions to develop such a common reporting standard. Environmental considerations are part of procurement policies and selection of suppliers, and products with an environmental label are preferred. The issuer has made efforts to reduce paper use by increasing the use of electronic signature. The travel policy requires to consider the environment.

Brage Finans is continuously evaluating financing solutions which can promote sustainable development. For retail clients, Brage Finans offers green car loans for the purchasing of electric cars. For corporate clients, it for example offers financing for electric car charging stations, recycling, and waste management solutions, sludge treatment and sea lice management. The company is currently considering new green finance products for solar panels.

Brage Finans supports the ten principles of the UN Global Compact as well as the UN Sustainable Development Goals.

Green bond framework

Based on this review, this framework is found to be in line with the Green Bond Principles. For details on the issuer's framework, please refer to the green bond framework dated 2023.

Use of proceeds

For a description of the framework's use of proceeds criteria, and an assessment of the categories' environmental impacts and risks, please refer to section 2.

Selection

All lending in Brage Finans goes through the company's general credit approval process. In addition to existing policies and procedures, inclusion in the pool of eligible green loans, loans and leases must also meet the criteria of the updated green bond framework.

Brage Finans has established an internal Green Bond Committee ("GBC"), consisting of members from the credit, compliance, and treasury departments, as well as the CFO. Brage Finans' credit department will be responsible for nominating loans and leases to the GBC, which in turn will evaluate and select loans and leases for inclusion in the pool of eligible green loans. The GBC will screen projects for potential controversies, Brage Finans seeks to avoid supporting projects with associated controversies such as local resistance. All decisions made by the GBC will be in consensus. According to the issuer, environmental expertise is represented amount the members of the committee. Decisions will be documented and filed.

Eligible green loans will be tagged at an asset-by-asset level for reporting purposes. Eligible green loans and leases will be tagged in Brage Finans' internal systems to ensure traceability.

Management of proceeds

Green bond proceeds are tagged and earmarked for financing and refinancing of eligible green loans.

Brage Finans' Treasury Department will ensure that the amount of eligible green loans always exceeds the total amount of green bonds outstanding. If a loan or lease financed by green bonds no longer qualifies as an eligible green loan in accordance with the green bond framework, it will be excluded from green financing and if needed it will also be replaced by other qualifying loans or leases.

Net proceeds from green bonds awaiting allocation will be managed according to the overall liquidity management policy of Brage Finans and may be invested in short term money market instruments and cash. Unallocated proceeds cannot be invested in fossil fuel related assets such as car/oil and gas company stocks.

Reporting

The issuer will publish an investor letter annually on its website to report on allocation and impact, as long as there are green bonds outstanding. Allocation of proceeds and associate reporting will be reviewed by an external auditor.

Impact report

Impact reporting will be made on a portfolio basis.

The assessment of environmental impact will be based on the indicators listed below, with the reservation that relevant data may not be available for each eligible green loan. Methods for calculation will be described in the investor letter.

Clean Transportation and Machinery

- Number of financed low-carbon vehicles and machinery per asset type
- Number of electric vehicles charging points installed
- For public transport, increased capacity in terms of number of passengers

Renewable Energy

- Installed capacity (MWh) per renewable energy source

Sustainable Aquaculture

- Lending per equipment type and examples of assets financed

Allocation report
The reporting on allocation will cover the following:

- Amounts invested in each of the categories of eligible green loans defined in the green bond framework and the amount of new financing versus refinancing
- The nominal amount of green bonds outstanding
- The amount of net proceeds awaiting allocation to eligible green loans
- Examples of assets financed by green bonds

2 Assessment of Brage Finans' green bond framework

The eligible projects under Brage Finans's green bond framework are shaded based on their environmental impacts and risks, based on the "Shades of Green" methodology.

Shading of eligible projects under Brage Finans' green bond framework

- Net proceeds from Brage Finans' green bonds will be used to finance a portfolio of loans and leases, in whole or in part, that promote the transition to low-carbon and climate-resilient development.
- The issuer expects that approximately half of proceeds will go to new loans and leases, and the other half to existing loans and leases.
- Some 90% of proceeds are expected to go to the clean transportation and machinery category, followed by aquaculture and finally renewable energy.
- Fossil energy generation, nuclear energy generation, research and/or development within weapons and defense, potentially environmentally negative resource extraction, gambling or tobacco are excluded.

Category	Eligible project types	Green Shading and considerations
Clean Transportation and Machinery °C	1. Loans and leases to finance fully electric vehicles including, but not limited to, cars, trucks, and public transport as well as fully electric machinery for construction, forestry management and agriculture. 2. Loans and leases to finance infrastructure for providing electricity to the above-mentioned object. 3. Loans and leases to finance infrastructure for the above-mentioned public transport services.	**Dark Green** ✓ Electrification has a crucial role to play in the low carbon economy. It is a key avenue for decarbonizing the transportation sector and is also a part of the 2050 solution for construction, forestry management and agriculture. ✓ By far most loans and leases related to electric cars. While electric vehicles outperform fossil fuel vehicles from lifecycle perspective, the electricity mix and specific car characteristics (size, weight, power) influence the size of achieved emissions reductions. The electricity mix in Norway is predominantly based on renewables. ✓ From a resource and greenhouse gas emissions perspective, public transport is preferable to private modes of transportation. ✓ Financed infrastructure is primarily charging infrastructure. Note that such charging infrastructure can also be used by hybrid vehicles.

		✓ Electrical machinery for forestry management includes machinery for timber harvesting, while in agriculture, electric tractors and harvesters may be financed. ✓ In agriculture, fossil fuel use typically represents a small share of emissions, and electrification does not address the wider transition needs of the sector, such as transition to a more plant-based food system. Machinery financed under the framework is used for crop and vegetable production. ✓ Sustainably managed forests can sequester carbon and protect against the impacts of climate change. In Norway, forestry is regulated by the Forestry Act and most forests are certified, either under PEFC or FSC, which are internationally recognized standards. Sustainable forestry nevertheless carries environmental risks, for example that intensive cultivation of a limited number of tree types negatively affects biodiversity. The issuer was not able to confirm if the forestry management where the machinery is used is certified. ✓ Electric technologies' significant lifecycle emissions and social risks, for raw materials sourcing and battery production, should be managed.
Renewable Energy	Loans and leases to finance solar power installations as well as technologies and equipment related to renewable energy installations within solar and wind.	**Dark Green** ✓ Increasing renewable energy capacity and production is an essential part of the 2050 solution. ✓ Within this project category, the issuer expects to mainly finance roof-top solar panels on buildings. It does not finance any wind parks but may finance electric technologies and equipment used for the installation of such parks. ✓ Sola power installations will be roof top solar, which have the advantage of having minimal local environmental impact, as they do not cause any land use change. ✓ Solar panels are associated with risks in their supply chain related to both social and environmental aspects. Considerations around end-of-life handling,

		recyclability and reusability are also important. We encourage the issuer to engage with its clients on these issues.
Sustainable Aquaculture	Loans and leases to finance fish farm equipment, such as, but not limited to, non-chemical sea lice management, escape prevention, waste management and sustainable feed production, that meet the following minimum criteria: • the fish farm must be certified by the Aquaculture Stewardship Council (ASC) and certified by the GLOBAL G.A.P standard, • feed used at the fish farm must only use soy protein concentrate that is certified either by the Round Table for Responsible Soy's (RTRS) Segregation certificate or by ProTerra, and, • the equipment must not run on fossil fuel, • the aquaculture company must be able to document that the producer of the feed used at the farm engages in a dialogue with its supplier of soy protein concentrate, encouraging it to reduce deforestation in all its operations, not only in its production share that is certified.	**Medium Green** ✓ Financed aquaculture facilities produced farmed salmon, and may be both onshore and offshore. While onshore installations have lower risks of negative impact on biodiversity, they have high energy use, that needs to be managed. ✓ Fish is a protein source with a low carbon footprint compared to red meat, with wild-caught fish in turn having a lower footprint than farmed salmon. Dietary changes are important to achieve the targets of the Paris Agreement. Broadly speaking, the needed changes are a move to more plant-based diets and more climate friendly animal proteins. ✓ The Aquaculture Stewardship Council (ASC) and the GLOBAL G.A.P are two internationally recognized standards. While ASC focuses on minimizing local environmental impacts and reducing chemical use, the GLOBAL G.A.P for aquaculture covers the entire production chain, covering among other environment, animal welfare, traceability and food safety. They are complementary and can be an effective way of ensuring a minimum level of sustainability in the aquaculture sector. ✓ For aquaculture, there is a climate risk in that demand for soy used for feed may drives up deforestation in Brazil. This risk is mitigated in the framework by requiring robust certifications for soy feed (Round Table for Responsible Soy's Segregation "RTRS Segregation", ProTerra). These certifications secure segregation of certified and non-certified soy, meaning that there is certainty that the physically delivered feed is certified. ✓ In January 2021, suppliers of soy to Norwegian aquaculture committed to stop trading soy stemming from recently deforested land. Specifically, Brazilian producers of Soy protein concentrate (SPC), an ingredient in soy feed, committed not to purchase soy grown on land in the Brazilian Serrado

	deforested after August 2020 or on land in the Amazon deforested after 2006. This means that the deforestation risk is lower in the aquaculture industry than in other animal protein industries that have Brazilian soy in their supply chain. ✓ Sustainability challenges also apply to marine and other plant ingredients in salmon feed. The Aquaculture Stewardship Council (ASC) certification for salmon sets limits on the use of wild fish as ingredients while also requiring a responsibly managed source, preferably certified. ✓ According to the issuer, its clients appear committed to contribute to stop trading soy that is related to deforested areas and have taken steps to purchase soy feed only from suppliers that have committed to not buying soy feed concentrate stemming from recently deforested land. The larger companies report on these aspects under the GLOBAL G.A.P, while smaller businesses in the sector tend to have less documentation on these aspects. ✓ There are concerns about the local environmental impacts of aquaculture, including escapes, antibiotic and chemical, overexploitation of wild fish stocks for feed, and sea lice. The (ASC) certification to aquaculture facilities mitigates some of these issues by setting stricter limits than national regulation but has been criticized for tolerating 300 escaped fish per production cycle and for a lenient limit on hydrogen peroxide. ✓ While equipment financed under the framework cannot run on fossil fuels, the overall aquaculture facility to which the loan is given can still operate on fossil fuels.

Table 1. Eligible project categories

3 Terms and methodology

This note provides CICERO Shades of Green's second opinion of the client's framework dated January 2023**.** This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, if the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Shades of Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

'Shades of Green' methodology

CICERO Shades of Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

	Shading	Examples
°C	**Dark Green** is allocated to projects and solutions that correspond to the long-term vision of a low-carbon and climate resilient future.	Solar power plants
°C	**Medium Green** is allocated to projects and solutions that represent significant steps towards the long-term vision but are not quite there yet.	Energy efficient buildings
°C	**Light Green** is allocated to transition activities that do not lock in emissions. These projects reduce emissions or have other environmental benefits in the near term rather than representing low carbon and climate resilient long-term solutions.	Hybrid road vehicles

The "Shades of Green" methodology considers the strengths, weaknesses and pitfalls of the project categories and their criteria. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised, including potential macro-level impacts of investment projects.

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Shades of Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Assessment of alignment with Green Bond Principles

CICERO Shades of Green assesses alignment with the International Capital Markets' Association's (ICMA) Green Bond Principles. We review whether the framework is in line with the four core components of the GBP (use of proceeds, selection, management of proceeds and reporting). We assess whether project categories have clear environmental benefits with defined eligibility criteria. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed. The selection process is a key governance factor to consider in CICERO Shads of Green's assessment. CICERO Shades of Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Shades of Green places on the selection process. CICERO Shades of Green assesses whether net proceeds or an equivalent amount are tracked by the issuer in an appropriate manner and provides transparency on the intended types of temporary placement for unallocated proceeds. Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs.

Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	Brage Finans Green Bond Framework	Brage Finans' green bond framework, dated January 2023
2	Bærekraftige Kredittprosesser Brage FInans	Procedure for assessing sustainability in Brage Finans' credit processes
3	Samfunnsansvarsrapport 2021	Sustainability Report for 2021
4	Bærekraftstrategi Brage Finans 2021	Sustainability Strategy for 2021, Brage Finans
5	Klimaregnskap 2021	Emissions accounting and reporting for 2021
6	Klimasertifikat 2022	Confirmation of carbon offsetting, dated February 2022
7	Kvartalspresentasjon 3. Kvartal 2022	Quarterly results presentation, Q3 2022
8	Miljøkartlegging 2022	Audit by external sustainability certifier

Appendix 2:
About CICERO Shades of Green

CICERO Shades of Green, now a part of S&P Global, provides independent, research-based second party opinions (SPOs) of green financing frameworks as well as climate risk and impact reporting reviews of companies. At the heart of all our SPOs is the multi-award-winning Shades of Green methodology, which assigns shadings to investments and activities to reflect the extent to which they contribute to the transition to a low carbon and climate resilient future.

CICERO Shades of Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Shades of Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Shades of Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

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- **2021 Largest External Reviewer,** Climate Bonds Initiative Awards
- **2020 External Assessment Provider Of The Year,** Environmental Finance Green Bond Awards
- **2020 Largest External Review Provider In Number Of Deals,** Climate Bonds Initiative Awards
- **2019 External Assessment Provider Of The Year,** Environmental Finance Green Bond Awards
- **2019 Largest Green Bond SPO Provider,** Climate Bonds Initiative Awards
- **2018 External Assessment Provider Of The Year,** Environmental Finance Green Bond Awards
- **2018 Largest External Reviewer,** Climate Bonds Initiative Awards
- **2017 Best External Assessment Provider,** Environmental Finance Green Bond Awards
- **2016 Most Second Opinions,** Climate Bonds Initiative Awards