



Hemma i Sverige AB

Green Financing Framework Second Opinion

December 7, 2020

The Hemma group (Hemma) is a Swedish mortgage credit institute, established in 2018, conducting mortgage lending to green residential properties. Hemma has partnered with companies focusing on implementing energy efficiency projects in residential properties in Sweden.

Hemma's Green financing framework includes eligible projects in the Green and energy efficient buildings category. Certification schemes include Certified passive houses and energy declaration of class A. The energy efficiency requirement for energy retrofits is minimum 30% improvement. Hemma will be working with their customers to reduce the energy demand by 30% every 10 years to ensure a minimum annual improvement of 3%.

Proceeds will be used to finance or re-finance improvements in existing properties and will not be used for new constructions. Climate stress tests and scenario analysis will be a part of the selection process. Hemma will exclude customers with fossil-based heating that are not willing to change heating system. Properties eligible for green financing must be accessible through public transport or the building must have installed electric vehicle infrastructure. CICERO Green is encouraged to see a green framework with ambitious eligibility criteria targeting existing residential properties.

The framework opens for defining a building as green if solar panels installed correlate to an energy improvement of approximately 30%. Investors should be aware that this does not ensure reduced energy consumption in the property as such and the green proceeds will correspond to the value of the property and not the renewable energy costs. 80-100% of the initial portfolio will be allocated to such mortgages. Over time, Hemma aims for 50% of the portfolio to consist of energy efficiency renovations.

By providing only green loans to its customers, Hemma is demonstrating a high awareness of environmental and sustainability concerns. Their corporate strategy is to create an economic incentive for residential homeowners to make significant investments in their properties so that the building will become low or net-zero emission in the long-term. Hemma has developed an ambitious target for their portfolio to reach a net-zero emission level by 2040.

Based on the overall assessment of the project types that will be financed by the green financing framework and governance and transparency considerations, Hemma's green financing framework receives a **CICERO Dark Green** shading and a governance score of **Good**. Hemma is newly established and has good intentions related to sustainability, climate change, and transparency. After some time in operation, Hemma should be able to demonstrate that the good intentions have been realized.

SHADES OF GREEN

Based on our review, we rate the Hemma's green financing framework **CICERO Dark Green**.

Included in the overall shading is an assessment of the governance structure of the green finance framework. CICERO Shades of Green finds the governance procedures in Hemma's framework to be **Good**.



GREEN BOND and GREEN LOAN PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.





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1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated October 2020. This second opinion remains relevant to all green financing products issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO 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.

Expressing concerns with 'shades of green'

CICERO 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:

CICERO Shades of Green	Examples
 <p>Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.</p>	 <p>Wind energy projects with a strong governance structure that integrates environmental concerns</p>
 <p>Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.</p>	 <p>Bridging technologies such as plug-in hybrid buses</p>
 <p>Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.</p>	 <p>Efficiency investments for fossil fuel technologies where clean alternatives are not available</p>
 <p>Brown is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future.</p>	 <p>New infrastructure for coal</p>

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 debt instrument are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green financing 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.



2 Brief description of Hemma's green finance framework and related policies

The Hemma group (Hemma) is a Swedish mortgage credit institute, established in 2018, conducting mortgage lending to green residential properties. Hemma is offering investors the opportunity to support the transition to a low or net zero carbon and climate-resilient society by investing in e.g. energy efficiency improvements. Aeda Asset Management AB (the Fund Manager) is a company within the Hemma Group offering investors to invest in Swedish mortgages. The investment mandate is directly coupled to the eligibility considerations described in Hemma's green financing framework.

Hemma has partnered with companies focusing on implementing energy efficiency projects in residential properties. This can be regional or national utility companies, energy efficiency consultants, heat pump or solar cell specialists, or other established player in the home renovation or energy efficiency field. It is a requirement that properties eligible for green financing must be accessible through public transport or the building must have installed electric vehicle infrastructure.

Environmental Strategies and Policies

Hemma's green financing framework aims to ensure transparency, disclosure, integrity and quality of issued green financing products. According to the issuer, all projects in Hemma's portfolio will be eligible projects according to the green financing framework. Hemma's investment policy is assessed by Hemma's sustainability council (see below) and approved by the board of the fund manager.

Hemma aims to offer investors the opportunity to support the transition to a low or net zero carbon and climate-resilient society through the funding of green residential properties. Furthermore, Hemma intends to contribute to Sweden's policy of exporting fossil-free electricity by financing the micro-production of fossil-free electricity and by this reducing the overall energy need from Swedish households.

Hemma has developed a concrete target of achieving a portfolio that has an overall net-zero emission level by 2040, which is 5 years before Sweden's parliament has stated that the nation shall achieve net-zero emissions. Hemma's corporate strategy is to create an economic incentive for residential homeowners to make significant investments in their properties from a sustainability perspective. Such investments may include maintenance of an existing energy efficient property, changes or investments in the property to materially improve energy efficiency or micro production of electricity. The economic incentive for homeowners shall be achieved via a green conversion mortgage product that is available to the majority of homeowners, but with certain conditions. Hemma, also aims for the homeowners to see an increase in the value of the buildings after retrofitting as well as reduced energy costs.

Hemma's debentures lasts for 10 years. If the loan is used to finance renovation, primary energy demand must be reduced by at least 30%. After 10 years, the loan must requalify and need to reduce primary energy demand by at least another 30%. Through this "Roadmap to climate neutral", Hemma is working with their customers to reduce the energy demand by 30% every 10 years (or more frequent if loans are renewed after less than 10 years) and is contributing significantly to reduced energy demand in their portfolio.

According to Hemma, the whole portfolio will be aligned with the EU Taxonomy (including the Do-No-Significant-Harm-criteria) and the plans and forecasts from the Swedish Energy Agency when setting its



overriding goals and investment policies. Aeda Asset Management AB is a signatory of the UN Principles for Responsible Investing (PRI)¹ and is in the process of becoming a signatory to the UN Global Compact Environment. Furthermore, Hemma's products shall contribute to the UN SDGs, with a particular focus on SDG 7, 9, 11, 13. Starting in 2021, Hemma intends to report on this on an annual basis. Hemma is furthermore in the process of establishing emissions reporting according to scope 1, scope 2 and scope 3 under the Global Reporting Initiative (GRI) and informs us that the intention is to first report in 2021.

Hemma has included stress tests and scenario analysis in their risk assessment and will include a stress test on climate resilience in its public reporting at least once a year. The test will apply public local climate scenario data from SMHI or similar sources to the geographical coordinates of the assets.

According to the issuer, Hemma is a signatory to TCFD and intend to implement the recommendations when the business has achieved the next steps in the growth plan.

Hemma has an ambitious travelling policy, aiming at e.g. reducing the carbon footprint while travelling.

Use of proceeds

The proceeds from green financing products issued under Hemma's Green financial framework must meet the green eligibility criteria given in table 1 below. The eligible category is Green buildings. Hemma's green financing framework and its intended business is focused on retail mortgages or energy efficiency capital expenditure loans.

The green eligibility criteria include that the properties must be insured against the risk of flooding or other extreme weather events. In case of i) refinancing of an existing mortgage the property securing the mortgage shall be classified as a green property², or ii) loans used to finance property renovations must reach at least a 30% reduction in primary energy usage compared to baseline performance (measured as the change in energy consumption per square meter) or, iii) the property must install renewable energy technology exceeding a minimum level. Regardless of investment undertaking, the property must be accessible through public transport. If public transport is not available, the property must invest in electric mobility infrastructure. Examples of energy efficiency renovations are the addition of wall or ceiling insulation.

It is possible that other forms of financing, such as warehouse loans or credit facilities within the Hemma Group, will qualify as green financing in accordance with this framework. If so, the legal agreement shall contain a reference to the green financing framework.

Hemma confirms that projects related to fossil fuel developments will not be deemed as eligible and therefore not be part of the green financing framework.

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO 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 Green places on the governance process.

¹ Only the Fund Manager, Aeda Asset Management AB, is a signatory of the UN PRI because most institutional investors are expected to invest in the fund.

² A green property can be defined as meeting one of the following criteria: 1. Energy declaration of class A Certified Passive House (sv: Certifierat Passivt Hus)



Hemma is about to establish a Sustainability Council (SC) including independent advisors with expertise in environmental issues, sustainable finance, energy efficiency and policy making.

The green eligibility criteria will be reviewed by the SC. Projects need to be screened against the green eligibility criteria and the EU Taxonomy. Selection criteria will be transparent during the application process, and an independent auditor will examine the processes on at least an annual basis. The selection process is consensus based, and the SC will serve as a formal advisory function to the Board. Meeting minutes will be shared with the Board and Company management accordingly.

Hemma will perform a screening process of the customer before originating the loan looking at e.g. credit and sustainability risks and the fund manager will reject any offer of loan acquisition if the green eligibility and credit criteria are not met. An example of a customer that will be rejected based on the eligibility criteria is a customer that meets all other underwriting criteria but are living in a home with poor energy efficiency and does not intend to undertake an eligible energy efficiency retrofit (30% energy reduction). Hemma further informs that the loans targeting energy efficiency retrofits will not be financed unless the customer's investment is coupled with a credible plan to improve the energy efficiency of the building by at least 30%, the planned improvement will be verified after the installation.

Hemma's internal processes and their loan portfolio will annually be reviewed externally to detect potential weaknesses in the business processes that may hinder the achievement of the targeted climate benefit. Hemma will also monitor the energy consumption of their customers and keep an open dialogue on the next steps for energy improvements. This will help mitigate lock in or rebound effects as well as selection of controversial projects. They expect the SC to challenge the companies with regards to such risks and discuss this in the SC-meetings and reflected in meeting minutes. Climate stress tests and scenario analysis will be a part of the selection process, with a focus as a minimum on the risk for flooding and raising temperatures.

In the start-up phase of their business, Hemma will not specify green eligibility criteria for building material, but all contractors and sub-contractors must follow a code of conduct, stating the alignment with e.g. the EU Taxonomy Do-No-Significant-Harm criteria.

Management of proceeds

CICERO Green finds the management of proceeds of Hemma to be in accordance with the Green Bond and Green Loan Principles.

The net proceeds received by the issuer through the issuance of green debt will be used exclusively to finance or refinance eligible green loans or to refinance maturing green debt instruments and will be managed by Hemma on a portfolio basis. The net proceeds from a green debt instruments will thus be allocated to a portfolio of eligible green loans. A small liquidity buffer is intended to be held in cash or cash equivalents to balance commitments towards investors and customers. There will be no unallocated proceeds on the issuers balance sheet, except for the small 1-2% liquidity buffer. There might exist unallocated proceeds with the originator or any subsidiary to the originator that has been obtained via a bilateral loan for a limited period. This risk limit is intended to cater for unforeseen events and is not expected to be used.

Hemma further informs that if the green eligibility criteria are not met when a customer wants to initiate a new loan, it will not be granted a new green mortgage and therefore not be part of the green financing framework.



Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

Hemma will report annually on the use of the funds with respect to the growth of the business and the application of the green financing products, as well as the respective impact or result achieved. The issuer will report both on a portfolio and a project-by-project basis if a project is defined as buildings with energy performance A, installation of renewable energy technology or renovation measures.

Reporting related to the summary of developments of the financing products, the outstanding amounts of issued green financing products, the total proportion of the net proceeds of the green financing products used to finance new assets and the proportion of the net proceeds of the green financing products used to refinance existing assets, a breakdown of allocated proceeds to the retrofitting segment, and the result of verification by a third party as well as the impact reporting, will be available to investors on Hemma's website. Hemma intends to be transparent about its assets and report on how much of a maturing debenture's underlying assets that pass the re-evaluation and therefore can be shifted into a new debenture. Hemma will appoint a third party to perform annual reviews on Hemma's internal tracking method for the use and management of proceeds.

Hemma also intends to carry out impact reporting on an aggregation of the loan volume and show greenhouse gases avoided or reduced as a result of the eligible green loans financed through the issuance of the green financing products. The following metrics for impact reporting will be included:

- (i) a brief description of, at least, two examples of eligible green loans financed through the issuance of green debt instruments (subject to customer approval being obtained);
- (ii) annual expected aggregated energy savings per square meter (kWh/sqm);
- (iii) expected aggregated annual greenhouse gas emissions avoided (tons);
- (iv) any approved changes to the green eligibility criteria and what impact that is expected to have on future lending.

Hemma will use a baseline calculation method taking into consideration energy savings given as kWh/m²year, using data from the utility companies or directly from the household electricity meter. If this is not possible, the energy consumption from the energy bills will be used per household. Hemma intends to track the grid factor in real time, or alternatively use the average grid factor³. Furthermore, Hemma informs that they also intend to report on what type of retrofit investment was undertaken, and on expected vs. actual energy production or energy savings respectively.

³ The grid factor will be taken from <https://www.electricitymap.org/map> where the Swedish grid factor is approximately 50 g CO₂ per kWh.



3 Assessment of Hemma’s green financing framework and policies

The framework and procedures for Hemma’s green finance investments are assessed and their strengths and weaknesses are discussed in this section. 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 in this section to note areas where Hemma should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Hemma’s green financing framework, we rate the framework **CICERO Dark Green**.

Eligible projects under the Hemma’s green financing framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green financing products aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the “overall environmental profile” of a project should be assessed and that the selection process should be “well defined”.

Category	Eligible project types	Green Shading and some concerns
Green buildings	<p>Individual assets classified as an “Eligible Green Loan” must meet the following Green eligibility criteria:</p> <ol style="list-style-type: none"> 1. The property must be insured (sv. hemförsäkring) via an insurance company, this is to ensure that the risk of flooding or other extreme weather is at an acceptable level. 2. The property must meet one of the following criteria. <ol style="list-style-type: none"> a) If the loan is used to finance an existing building: <ol style="list-style-type: none"> i. The property securing the mortgage shall be classified as a green property. For mortgages whereby the secured property is a tenant-owner association, the physical building in which the property is located shall be used when determining eligibility. A green 	<p>Medium to Dark Green</p> <ul style="list-style-type: none"> ✓ Hemma does not finance new constructions. ✓ The home insurance criteria relies on a third party to evaluate climate risk, the risk tolerance of the third party might be different than Hemma’s. ✓ According to IEA, efficiency of building envelopes needs to improve by 30% by 2025 to be aligned with the Paris target. ✓ Properties eligible for green financing must be accessible through public transport or the building must have installed electric vehicle infrastructure.



<p>property is defined as meeting one of the following criteria:</p> <ul style="list-style-type: none">▪ Energy declaration of class A▪ Certified Passive House (sv: Certifierat Passivt Hus)⁴	<ul style="list-style-type: none">✓ Eligible buildings can be heated with district heating⁷.✓ Hemma has informed that they will screen customers for fossil-based heating systems. If fossil fuel heating is discovered, the clients will be asked to change heating source in order to get a loan.✓ According to Hemma, renovations must have been made within 1 year of the date of extension of credit to the borrower under the eligible green loan.✓ Green proceeds will correspond to the value of the property and not the renewable energy costs. 80-100% of the initial portfolio will be allocated to such mortgages. Over time, Hemma aims for 50% of the portfolio to consist of energy efficiency renovations.✓ According to the issuer, a generation of 4 500 kWh/year correlate to an energy improvement of 30% for an average Swedish residential property.
<p>b) If the loan is used to finance a property that has installed solar panels and ancillary technical equipment with an installed effect of 4 500W equivalent to approximately 4 500 kWh per year. The minimum installed effect is decided to promote transition. This installation may occur in connection with the extension of credit by the originator.</p>	
<p>c) If the loan is used to finance a residential building, with a formally signed and specified commitment⁵ from the owner to undertake a building renovation planned to reduce primary energy usage with at least 30%.</p>	
<p>3. The property must be accessible through public transport; or the property must invest in electric mobility infrastructure⁶.</p>	
<p>4. The property owner accepts to receive information from Hemma Group about property specific energy efficiency improvements that can be undertaken to decrease the emission of greenhouse gases of the property.</p>	

Table 1. Eligible project categories

Background

The construction and real estate sector have a major impact on our common environment. According to the National Board of Housing, Building and Planning's environmental indicators, it accounts for 32% of Sweden's energy use, 31% of waste and 19% of domestic greenhouse gas emissions. Calculations from Sveriges Byggindustrier indicate that the climate impact of new production of a house is as great as the operation of the house for 50 years.

As members of the EU, Sweden is subject to the EU's climate targets of reducing collective EU greenhouse gas emissions by 40% by 2030 compared to 1990 levels, increasing the share of renewable energy to 32% and

⁴ <http://www.igpassivhus.se/>

⁵ I.e. a signed agreement with a supplier of the renovation or the equipment.

⁶ The issuer only allows for categories B and C under the Swedish DeSo-classifications indicating that buildings cannot be in the rural areas (DeSo area A). This will, according to the issuer, ensure that building are within 500 m to public transport. <https://www.scb.se/hitta-statistik/regional-statistik-och-kartor/regionala-indelningar/deso-demografiska-statistikomraden>

⁷ Statistics show a rapid decline in the usage of fossil fuel when producing district heating,

<https://www.naturvardsverket.se/Sa-mar-miljon/Statistik-A-O/Bransleanvandning-for-el--och-fjarrvarmeproduktion/>



improving energy efficiency by at least 32.5%.⁸ The European Green Deal aims for carbon neutrality in 2050.⁹ Sweden has developed a National Energy and Climate Plan (NECP) in which it outlines the targets and strategies in all sectors.¹⁰ These strategies include measures such as increasing renewable energy capacity, increasing energy efficiency, facilitating the large scale implementation of clean transportation alternatives, and increasing carbon sinks through reforestation and the LULUCF sector. Non-ETS emissions, of which public buildings and households are a part, must decrease by 63% by 2030.

The building sector accounts for a large share of primary energy consumption in most countries, and the IEA reports that the efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand.¹¹ The energy efficiency of buildings is dependent on multiple factors including increasing affluence and expectations of larger living areas, growth in population and unpredictability of weather, and greater appliance ownership and use. All of these factors should therefore be considered in the project selection process. In addition, voluntary environmental certifications such as LEED and BREEAM or equivalents measure or estimate the environmental footprint of buildings and raise awareness of environmental issues. These points-based certifications, however, fall short of guaranteeing a low-climate impact building, as they may not ensure compliance with all relevant factors e.g., energy efficiency, access to public transport, climate resilience, sustainable building materials. Many of these factors are covered under the World Green Building Council's recommendations for best practices for developing green buildings.¹² CICERO Shades of Green assesses all of these factors when evaluating the climate impact of buildings.

According to the Exponential Roadmap¹³, which lays out a trajectory for reducing emissions by 50% by 2030, emissions reductions strategies within the buildings sector need to be rapidly scaled up. The roadmap advocates for standardised strategies that are globally scalable within areas such as new procurement practices for construction and renovation that require dramatically improved energy and carbon emission standards, developing new low-carbon business models for sharing space and smart buildings to achieve economies of scale, and allocating green funding for sustainable retrofitting and construction.

The fossil fuel fractions in the Swedish district heating system is declining¹⁴. Emissions of greenhouse gases from electricity and district heating production were 24% lower in 2018 compared with 1990. However, emissions vary over the years, which is mainly due to increased use of fossil fuels in cold weather. Continued phasing out of fossil fuels is needed, but the biggest challenge is to reduce fossil-based plastics that go to waste incineration.

EU Taxonomy

In March 2020, a technical expert group (TEG) proposed an EU taxonomy for sustainable finance that included a number of principles including “do-no-significant-harm (DNSH)-criteria” and safety thresholds for various types of activities.¹⁵ In November 2020, EU published its draft delegated act to outline its proposed technical screening criteria for climate adaptation and mitigation objectives, respectively, which it was tasked to develop after the

⁸ https://ec.europa.eu/clima/policies/strategies/2030_en

⁹ https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

¹⁰ https://ec.europa.eu/energy/topics/energy-strategy/national-energy-climate-plans_en

¹¹ <https://www.iea.org/reports/building-envelopes>

¹² <https://www.worldgbc.org/how-can-we-make-our-buildings-green>

¹³ [https://exponentialroadmap.org/wp-](https://exponentialroadmap.org/wp-content/uploads/2020/03/ExponentialRoadmap_1.5.1_216x279_08_AW_Download_Singles_Small.pdf)

[content/uploads/2020/03/ExponentialRoadmap_1.5.1_216x279_08_AW_Download_Singles_Small.pdf](https://exponentialroadmap.org/wp-content/uploads/2020/03/ExponentialRoadmap_1.5.1_216x279_08_AW_Download_Singles_Small.pdf)

¹⁴ <http://www.naturvardsverket.se/Sa-mar-miljon/Statistik-A-O/Vaxthusgaser-utslapp-fran-el-och-fjarrvarme/>

¹⁵ Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020.

https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy_en



Taxonomy entered into law in July¹⁶. The Do-No-Significant-Harm criteria include measures such as ensuring resistance and resilience to extreme weather events, preventing excessive water consumption from inefficient water appliances, ensuring recycling and reuse of construction and demolition waste and limiting pollution and chemical contamination of the local environment. CICERO Green will not here verify Hemma's framework against the full EU taxonomy, but notes that the updated taxonomy includes technical screening criteria for the real estate sector related to activities relevant for Hemma (ownership, renovations and installation of renewable technologies)¹⁷:

1. Ownership or acquisition of buildings built before 2021 should have an Energy Performance Certificate label A.
2. Renovations should deliver 30% primary energy savings.
3. Installation, maintenance and repair of renewable energy technologies.

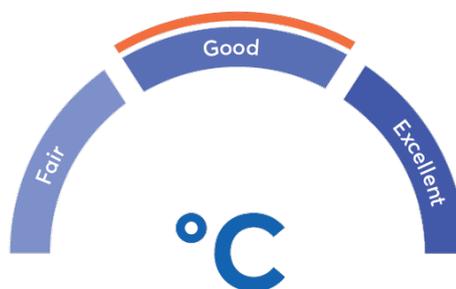
The taxonomy highlights the importance of lifecycle emissions. Energy saving renovations for existing properties that result in buildings lowering their primary energy demand with 30% are likely to be classified as sustainable within the EU Taxonomy. It is further anticipated that activities related to energy efficiency, including installation of solar panels, heat pumps, extension of district heating and cooling, are to be classified as sustainable according to the EU Taxonomy.

Relating to Hemma's eligibility criteria, properties financed with an A energy classification is likely aligned with the updated EU Taxonomy. Furthermore, renovation projects are likely to be eligible if they are evidenced to improve energy efficiency by at least 30% compared to the baseline performance. Investors should be aware that financing of renewable energy technology such as solar PV systems, regardless of installed effect, does not ensure reduced energy consumption in the property as such and the green proceeds will correspond to the value of the property and not to renewable energy costs. According to the EU-taxonomy it is only the renovation costs that qualify as green.

Governance Assessment

Four aspects are studied when assessing Hemma's governance procedures: 1) the policies and goals of relevance to the green financing framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: 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.

Hemma is demonstrating a high awareness of environmental and sustainability concerns and have a strong governance structure to be a new company. The project selection process is consensus based and the issuer has stated that the SC has environmental and sustainability competence. Climate stress tests and scenario analysis will be a part of the selection process. External review of Hemma's internal processes and loan portfolio, as well as an open dialogue with their customers will help mitigate lock-in and rebound. The



¹⁶ https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC_WORKFLOW

¹⁷ [EU Taxonomy: Annex to the Commission Delegated Regulation, supplementing Regulation \(EU\) 2020/852, November 2020. https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-da-2020-annex-1_en.pdf](https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-da-2020-annex-1_en.pdf)



management of proceeds are good and aligned with the Green Bond Principles (2018). Impact reporting includes relevant performance indicators. The selection process and the reporting of allocation of proceeds and impacts will be externally reviewed and reported on an annual basis.

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

Strengths

Hemma demonstrate a high focus on environmental and sustainability issues and the whole portfolio will be included in their green financing framework. Furthermore, they have established partnerships with companies focusing on implementing energy efficiency projects in residential properties that provide knowledge about energy efficiency and renewable energy.

The company's objective is to offer investors the opportunity to support the transition to a low or net zero carbon society through funding of green residential properties. Hemma is providing only green loans to its customers, and through their "Roadmap to climate neutral" Hemma intends to work with their customers to improve their energy efficiency. Hemma has ambitious targets for their loan portfolio, and a concrete target of achieving net-zero emission level for their portfolio by 2040. The whole portfolio will be included in the green financing framework. Furthermore, Hemma's partners must be aligned with the EU Taxonomy Do-No-Significant-Harm criteria. Hemma's fund manager, Aeadia Asset Management AB, is signatory to the UN Principles for Responsible Investing and in the process of becoming a signatory to the UN Global Compact. Hemma informs that they intend to report according to the GRI-principles, starting with the 2021 reporting. Hemma is a signatory to TCFD and intend to implement the recommendations when the business has achieved the next steps in the growth plan.

The decarbonization of the real estate sector will need vast reduction of the residential energy consumption. Hemma's requirement for energy efficiency of at least 30% in renovation project will contribute to greener residential buildings and the reduction of greenhouse gas emissions in Sweden more broadly. Through their policy "Roadmap to climate neutral" Hemma intends to work with their customers to improve their energy efficiency and is contributing significantly to reduced energy demand in their portfolio.

Weaknesses

CICERO Green finds no material weaknesses in Hemma's Green financing framework.

Pitfalls

Investors should be aware that the framework also opens for defining a building as green if solar panels is installed with an effect exceeding 4,500 W. This will improve the primary energy demand as determined in Swedish regulation. However, it does not ensure reduced energy consumption in the property as such. The loans provided are linked to the value of the property and not to the renewable energy costs.



Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Hemma's Green Financing Framework, October 2020.	Draft Green Financing Framework provided by Hemma.
2	Hemma's Sustainability policy, adopted 2019-12-11 by Board of Hemma Group Holding Co	Sustainability policy (Hållbarhetspolicy), giving input on Hemma's principles on sustainability.
3	Hemma's Code of Conduct for suppliers, dated 2020-08-26.	Code of Conduct for suppliers (Uppförandekod för leverantörer), giving input on expectations related to sustainable business, ethics and professional behaviour for the suppliers.
4	Hemma's instruction for risk assessment, dated 2019-10-24.	Instruction for risk assessment (Instruktion för riskhantering, giving input on types of risk to be assessed and what to be included in a risk assessment.
5	Hemma's Investment Policy, adopted 2020-04-28.	The Investment Policy governs the investments associated with Hemma i Sverige Fond AB ("the Green Mortgage Fund")
6	Hemma's Problem Credit Instruction, dated 2020-08-31.	The Problem Credit Instruction (Problemkreditinstruktion) shall identify and manage credits with significant increase in credit risk and so-called Problem Credits in the Company's Fund.
7	Hemma's Instruction for measures against money laundering and financing of terrorism, dated 2019-10-24.	The Instruction for measures against money laundering and financing of terrorism (Instruktion för åtgärder mot penningtvätt och finansiering av terrorism) set out the routines



		and guidelines to counteract and prevent the activity used for money laundering and terrorist financing.
8	Hemma's Ethical Policy dated 2019-02-26.	The Ethical Policy (Etikpolicy) shall ensure that the business is conducted in an ethically responsible and professional way.
9	Hemma's Code of conduct (CoC) for employees, adopted 2020-08-26.	The CoC for employees describes what is expected of an individual connected to Hemma Group.
10	Hemma's Terms for agreements, dated 2019-10-24.	The Terms for agreements (Villkor för uppdragsavtal) set out the terms for agreements.
11	Hemma's Instruction for handling of conflicts of interest, dated 2019-10-24.	The Instruction for handling of conflicts of interests (Instruktion för hantering av intressekonflikter) intends to establish routines and guidelines to ensure that the Company identify and manage conflicts of interest.
12	Hemma's Instruction for compliance, dated 2020-09-23.	The Instruction for compliance (Instruktion för regelbaserad verksamhet) shall ensure proper operation management of regulatory compliance in the Company.
13	Hemma's Credit instruction dated 2020-08-31.	The Credit instruction (Kreditinstruktion) gives instructions to the operating activities for how the credit policy is to be complied with, including credit rules.
14	Hemma's policy "Roadmap to climate neutral", dated 2020-10-16.	The policy illustrates how the loan criteria contribute to energy efficiency improvements.
15	Hemma's travelling policy, dated 2020-10-26.	The travelling policy (Riktlinjer för resor) gives guidance on e.g. how to take environmental concern while travelling.



Appendix 2: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO 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 Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).

