



Varbergs Sparbank Green Bond Second Opinion

August 30th, 2021

Varbergs Sparbank is a local Swedish savings bank, mainly exposed to the real estate sector. The bank does not have a general exclusion list for its portfolio, but its local focus implies that it has no lending to fossil-fuel intensive sectors. Varbergs Sparbank reported its greenhouse gas emissions for the first time in 2020 and has set quantified targets for its own emissions, which are in line with Sweden's target of to more than halve emissions by 2030. The emissions associated with the bank's lending, products and services have been identified as its main source of emissions, but these are yet to be quantified. For loans larger than SEK5 m, ESG risks are taken into account in the credit risk analysis.

The bank expects all proceeds from the first issuance under this framework to be refinancing, with 75 percent directed to the green building category. The eligibility criteria are high levels of environmental certification or good energy use performance. The second largest project category in the current green loan portfolio is agriculture, with 25 percent of the first issuance expected to finance organic dairy and crop production (KRAV and EU organic certifications). Varbergs Sparbank's current green loan portfolio includes some wind projects, but according to the issuer none with associated controversies. The bank has no existing loans in the remaining categories (sustainable forestry, transportation and energy efficiency). Both the real estate and agriculture sectors are exposed to physical climate risk, which the bank currently does not screen for. All eligible loans will finance activities in Sweden. For the agriculture and forestry categories, machinery running on fossil fuel is not eligible.

A green bond committee, which includes environmental expertise, is responsible for the selection of eligible loans. The largest project categories (green buildings and agriculture) have clear eligibility criteria, while most of the other categories' criteria are somewhat less specific, making the assessment by the green bond committee more important. The bank published a separate sustainability report for the first time in 2020 and has recently revised its sustainability policy.

Based on the overall assessment of the projects that will be financed under this framework, governance and transparency considerations, Varbergs Sparbank's green bond framework receives a **CICERO Medium Green** shading and a governance score of **Good**. Varbergs Sparbank should continue to work on the indirect emissions from its financing activities. The governance would benefit from addressing climate risk more systematically, for example by following TCFD recommendations.

SHADES OF GREEN

Based on our review, we rate Varbergs Sparbank's green bond framework **CICERO Medium Green**.

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



GREEN BOND 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 August 2021. 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, 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



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.



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.



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.

Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available

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 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.



2 Brief description of Varbergs Sparbank's green bond framework and related policies

Varbergs Sparbank AB ("Varbergs Sparbank") is a local savings bank providing a broad range of products and services to private individuals, companies and organizations. Corporate lending stands for 60 percent of the bank's lending portfolio, and the bank is mostly exposed to the property sector. Its largest types of corporate customers are, in order of importance: property management, agriculture, fishing and forestry, and manufacturing. The bank has four branch offices, located in Varberg municipality on the western coast of Sweden. Varbergs Sparbank cooperates with Swedbank, which provides the opportunity to finance retail mortgages via Swedbank Hypotek, Sweden's largest issuer of covered bonds. Varbergs Sparbank is Sweden's fourth largest savings bank, with a total of SEK 12 740m in net lending in its own books as of 31 December 2020. Varbergs Sparbank has a strong commitment to the local community through contributions to social and cultural activities in the region.

Environmental Strategies and Policies

The bank has a sustainability policy and a goal to limit its environmental impact, both the direct impact of its operations and the indirect impact of its financing, investments, payments and purchases. For the first time in 2020, Varbergs Sparbank prepared a greenhouse gas inventory using the GHG Protocol methodology. Varbergs Sparbank has a target to halve its own emissions by 2030, and to reduce its 2021 emissions by 7 percent compared to 2019. 2019 is chosen as the baseline year due to 2020 being impacted by the covid-19 pandemic.

The bank's emissions amounted to 11,1 tonnes CO₂e in 2020, compared to 19,9 tonnes in 2019, with the reduction being mainly due to the pandemic. In Varbergs Sparbank's 2020 greenhouse gas inventory, scope 3 emissions are only partially included. The scope 3 emissions included in the inventory are employee travel (1,5 tonne), waste (4,5 tonne) and paper use (4 tonnes). These emissions make up ninety percent of the bank's emissions. Remaining emissions come from district heating used for the bank's offices (scope 2) and the bank's car fleet (scope 1). According to the issuer, its electricity consumption does not cause any greenhouse gas emissions, as its consumption is equivalent to its shares in local wind energy production Varbergs Vind and Varbergsortens Vindkraftsförening. Meanwhile, the bank's greatest impact on the environment comes from its lending portfolio, products and services, as identified in the bank's materiality assessment. These emissions have not yet been quantified.

However, Varbergs Sparbank is working to influence those emissions. In its credit analysis of customers, the bank includes environmental considerations, social responsibility and business ethics. For instance, the bank takes into account how environmental risks can affect the customer's ability to repay. For lending over SEK 5m, which represent 36 percent of the bank's business loan volume, a separate sustainability analysis must be prepared. The bank currently does not report in line with the recommendations of the TCFD (Task Force on Climate Related Financial Disclosure), and has not yet taken a decision on whether it wants to do so in the future. Varbergs Sparbank is working on a number of internal sustainability projects, including on physical climate risk, looking into how it can better identify ESG risks and integrate them into its products and services.



For the first time in 2020, the bank published a separate sustainability report - previously sustainability reporting was included in the annual report. In addition, a dedicated Head of Sustainability has been appointed and the bank is in the process of revising its sustainability strategy. The Global Reporting Initiative (GRI) serves as an inspiration in the company's sustainability reporting. The issuer's ambition is to meet the requirements of the GRI standard over time.

Use of proceeds

According to the issuer, an amount equivalent to the net proceeds from Varbergs Sparbank's green bonds shall be used to re-finance green eligible loans providing distinct environmental benefits. Loans are only given to activities in Sweden. The eligible loan categories are green buildings (residential or commercial new construction and major renovations, as well as existing residential or commercial buildings), sustainable agriculture, forestry and transportation, as well as energy efficiency and renewable energy.

The proceeds of Varbergs Sparbank's green bonds will not be used to finance fossil fuel energy generation, nuclear energy generation, weapons, and defence industries nor potentially environmentally negative resource extraction, gambling, or tobacco.

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.

A green bond committee ("GBC") is responsible for the final approval of green loans and has a broader responsibility for the pool of green eligible loans, including annual reporting. The GBC is responsible for monitoring allocation of proceeds during the term of the green bonds to ensure that the proceeds are sufficiently allocated to green eligible loans. The committee consists of representatives from the sustainability, finance, corporate and credit departments. According to the issuer, sustainability expertise will be part of the committee. Decisions are made by consensus.

All loans, including green eligible loans, are subject to the bank's credit process. Additionally, for loans larger than SEK 5m, a separate sustainability analysis is done. Only assets approved in the regular credit process can be eligible for green funding, as the qualification for green criteria cannot override credit risks.

The selection process is slightly different for existing green loans compared to new green loans. The selection process for existing corporate and private green loans includes the following steps: i) the pool of green eligible loans is identified by the finance department, ii) the latter mentioned is presented for the GBC and iii) following GBC approval, the green eligible loans are inserted in the "Green Register". Meanwhile, for new corporate green loans, the selection process is as follows: i) client executive fills in a specific green application for the credit department, ii) the credit department assesses the loans against the framework's requirements, iii) loans considered as aligned with the framework are submitted to the GBC and iv) loans approved by the GBC are recorded in the "Green Register". Finally, for new private green loans, these are also subject to GBC approval and will be recorded in the "Green Register", but the selection process is still under development and depends on internal IT systems.

The bank states that it will follow developments in the green bond market and take potential updates to the Green Bond Principles into account through updates of its green bond framework.



Management of proceeds

CICERO Green finds the management of proceeds of Varbergs Sparbank to be in accordance with the Green Bond Principles.

An equivalent amount to the net proceeds from Varbergs Sparbank's Green bonds will be tracked using a spreadsheet called "Green Register", together with the amount of green bonds issued. The finance department is in charge of the proceeds management. Any unallocated proceeds held temporarily will be invested in accordance with the internal requirements for the bank's liquidity reserve, which exclude fossil fuel related assets such as car/oil and gas company stocks. The issuer will disclose the portfolio balance of unallocated proceeds, if any.

Green bonds issued by Varbergs Sparbank will be managed on a portfolio level, and will not be linked directly to a specific green eligible loan. Loans can, whenever needed, be removed or added to/from the green eligible loan portfolio.

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.

The issuer states that it is committed to regular reporting until no green bonds are outstanding. The finance department is responsible for the reporting, with support from the sustainability department. On an annual basis, the bank will publish a report on its website including the following:

- Total amount of green bonds issued
- Share of proceeds used for financing/re-financing and share of proceeds used for eligible project categories
- Share of unallocated proceeds

The allocation of proceeds will be reviewed by an external part/verifier on an annual basis, and the verification report will be published on Varbergs Sparbank's website.

The impact reporting will be done on a portfolio basis, and the bank intends to report on quantitative impact indicators where reasonable and where relevant data is available, in the six main project categories:

- Green buildings:
 - Information on the energy usage in kWh/sq. m./year
 - Estimated annual greenhouse gas emissions reduced or avoided (t CO₂e)
 - Type of certification including level, if any
- Sustainable agriculture
 - Cropland under organic agriculture practices (hectare)
 - Organic farming certification scheme
- Sustainable forestry
 - Land area certified (hectare)
- Sustainable transportation:
 - Number of fossil-free vehicles deployed
 - Number of electric vehicles charging points installed
- Energy efficiency
 - Annual energy saved (MWh)



- Renewable energy
 - Installed capacity (MWh) or expected annual generation (MWh)

The CO₂e emissions from electricity are calculated with an emission factor determine in line with recommendations from the Nordic Public Sector Issuers in 2020.



3 Assessment of Varbergs Sparbank's green bond framework and policies

The framework and procedures for Varbergs Sparbank's green bond 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 Varbergs Sparbank' 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 Varbergs Sparbank's green bond framework, we rate the framework **CICERO Medium Green**.

Eligible projects under the Varbergs Sparbank's green bond 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 bonds 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 building ¹	Category I – Residential or commercial new construction & major renovations: i. New construction that either have or with the objective to receive minimum Miljöbyggnad Silver or Green Building or Nordic Swan Ecolabel or Passive House. ii. New construction that either have or with the objective to receive minimum BREEAM Very Good or LEED Gold or other equivalent certification standard, and with an energy consumption of at least 20% below the applicable national building regulation.	Light to Medium Green ✓ Approx. 75 percent of green buildings in current green loan portfolio. Most buildings in the bank's current portfolio are certified Miljöbyggnad Silver and Green Building. ✓ Energy use and building materials are the two main sources of (indirect) emissions from buildings. In a 2050 perspective, building energy performance needs to improve. Transport solutions, access to renewable energy for heating and electricity are also important.

¹ New construction is defined as buildings built after 31 Dec 2020, and existing buildings are defined as buildings built before 31 Dec 2020, in line with the EU Taxonomy.



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| <ul style="list-style-type: none"> iii. New construction with an energy consumption at least 20% below the applicable national building regulation. iv. New construction with an energy performance certificate (“EPC”) A or B. v. Major renovations resulting in a reduced energy consumption by at least 30%.² <p>Category II – Existing residential or commercial buildings</p> <ul style="list-style-type: none"> i. Buildings fulfilling requirements for i and ii under Category I. ii. Buildings with an energy performance certificate (“EPC”) of class A or B, or if within the top 15% of the national or regional building stock.³ iii. Buildings with an energy consumption at least 20% below the applicable national building regulation.⁴ | <ul style="list-style-type: none"> ✓ Not clear how the level of ambition of the top 15 percent of national or regional building stock will be assessed. This could include buildings that are not better than regulations. ✓ The listed building certification criteria reflect a good environmental standard, however the points based system do not guarantee low climate impact. ✓ Physical climate risk is currently not assessed by the bank, and climate resiliency is not necessarily addressed by the certifications. ✓ Life cycle analysis of building materials will become mandatory in Sweden from 1 January 2022 for a large part of new buildings⁵. |
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Sustainable agriculture

Organic farming certified according to national legislation or EU-legislation.

Light to Medium Green

- ✓ Approximately 25 percent of current green loan portfolio.
- ✓ Meet production not eligible, dairy and crop farming to be funded (land, buildings, machinery and biogas projects). Certifications are mainly KRAV (Swedish organic certification) and EU certification for organic production.
- ✓ Animal-based food (including dairy) tends to have a higher carbon footprint than plant-based



² National requirements at the time of construction of buildings are applicable as baseline for comparison
³ Currently there are no Green loans within sub-category “top 15% of the national or regional building stock”. No Green bond proceeds will be allocated to this sub-category going forward until the following criteria are fulfilled: i) A robust methodology for identifying top 15% needs to be established by the National Board of Housing, Building and Planning (Sw. Boverket) and Swedish Energy Agency (Sw. Energimyndigheten) ii) The methodology is viewed as ambitious and subject for approval by the Green Bond Committee iii) Top 15% as sub-category is subject for reporting where energy usage for this particular sub-category is to be clearly disclosed.

⁴ Applicable national building regulations in Sweden corresponds to BBR 29 (Boverket’s Building Regulations 29). 20% below BBR corresponds to energy performance ≤60 kWh/sq. m.

⁵https://www.riksdagen.se/sv/dokument-lagar/dokument/svensk-forfattningssamling/lag-2021787-om-klimatdeklaration-for-byggnader_sfs-2021-787



		<p>food, where the largest share of emissions result from land-use change and emissions during farming (emissions related to feed, methane and manure).</p> <ul style="list-style-type: none">✓ Fossil fueled equipment not eligible under this framework.✓ Organic farming has broad environmental benefits, but impacts on greenhouse gas emissions are uncertain.✓ KRAV is based on EU legislation of organic products and raw materials but poses extra requirements.✓ The KRAV scheme calls for lowering the use of fossil fuels and demands energy efficiency improvements. Measures taken are reviewed. The standard requires that all purchased electricity must be renewable.
Sustainable forestry	Sustainable forestry defined as forestry certified by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC).	Medium Green <ul style="list-style-type: none">✓ Currently no loans in portfolio in this category.✓ FSC and PEFC are internationally recognized forestry certification schemes which are a good starting point for sustainable forestry, but planted and semi-natural forests tend to be relatively poor in biodiversity and ecological benefits compared to original forests.✓ Fossil fueled equipment not eligible.
Sustainable transport	<ol style="list-style-type: none">Fossil-free vehicles powered by electricity, hydrogen or biofuel.Infrastructure for clean transport including electric charging points.	Dark Green <ul style="list-style-type: none">✓ Currently no loans in portfolio in this category.✓ Cars using fossil fuels, including in combination with electricity (plug in hybrid) or with biofuels not eligible.



- ✓ Investors should however be aware that if the production of hydrogen involves the use of natural gas, it contributes to the emission of greenhouse gases.
- ✓ The sustainability of biofuels depends on the feedstock used and their transportation route. Some feedstock may lead to land use change, with associated deforestation and biodiversity loss or, replace food crops. These issues need to be taken into account in their life cycle emissions and whether they actually reduce emissions compared to fossil fuels.

Energy
efficiency



Energy retrofits such as converting to LED lighting, heat pumps, improvements in ventilation systems, extension of district heating and cooling systems.

Medium Green

- ✓ Currently no loans in portfolio in this category.
- ✓ According to the IEA, a 30% reduction in energy performance would be necessary to be in line with the Paris Agreement “well below 2°C target”.
- ✓ Refurbishment of existing buildings are often better than new constructions from a climate point of view but should ideally come with greater improvements in energy efficiency.
- ✓ Be aware of potential rebound effects following energy efficiency improvements.
- ✓ Swedish district heating system has a high level of compliance to European definition of energy efficient district heating, uses high proportions of heat recycling and renewable supply.
- ✓ In addition to waste incineration, district heating may require fossil or biofuel boilers, and/or may use recovered heat from industry.
- ✓ Fossil fraction from waste incineration in the local district



heating system in Varberg is one of Sweden's lowest.

Renewable
energy

- i. Wind power
- ii. Solar energy
- iii. Hydropower



Medium Green

- ✓ Currently no large wind projects in portfolio, no conflicts related to wind power financed under this framework.
- ✓ No current green lending to hydropower or solar. Solar energy expected to be primarily roof-based. Hydropower not expected to be a significant part of the portfolio.
- ✓ No environmental impact assessment required by the bank.

Table 1. Eligible project categories

Background

Financing institutions and banks are vital driving forces to reach the Paris Agreement and can provide leadership through providing financing of activities necessary to reduce greenhouse gas emissions and adapt to a changing climate. Banks also have a significant role in managing climate risks. Having climate goals for the bank's operations and portfolio, including science-based targets, implementation of TCFD reporting and climate risk assessment of their customers in the ESG due diligence, represents best practices of the sector.

As an EU member, Sweden is covered by the EU's climate targets of reducing greenhouse gas emissions by 40% by 2030 compared to 1990 levels, and related targets for the share of renewable energy and energy efficiency improvements. Sweden has developed a National Energy and Climate Plan (NECP) in which it outlines the targets and strategies in all sectors. These strategies include measures such as increasing renewable energy capacity, improving energy efficiency, facilitating the large scale implementation of clean transportation alternatives, and implementing carbon sinks through reforestation and the LULUCF sector. Sweden's current target for its non-ETS sectors, including transport, waste and buildings, is a 63 % decrease by 2030. The EU has increased its 2030 target to 55 percent, and is currently working on a legislative package adapting the relevant regulations to the higher target.

The construction and real estate sector have a major environmental impact. Generally, approximately half of life-cycle emissions from buildings stem from materials/construction. The other half stems from energy use, which may become less important over time with the increasing adoption of off-grid solutions such as geothermal and solar. 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. CICERO Shades of Green assesses all of these factors when evaluating the climate impact of buildings.



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. The Internal Energy Agency (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 – in addition to improvements in lighting and appliances and increased renewable heat sources. 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.

Agriculture is important to the Swedish economy, including in Varberg's economy, as a source of domestically produced food and employment. A long-term food strategy was presented in 2017 by the Swedish government, aiming for increased production with sustainability and higher self-sufficiency as core elements. Over the last 10 years, Sweden's average grain export was approximately 30% of the production.

The municipality of Varberg includes several small urban areas, of which Varberg is the largest, with its approximately 27,000 inhabitants. The municipality's population is growing, of which approx. 80 percent live in rural areas. Thirty percent of the municipality's land is used for agriculture and fifty percent is forest. Varberg municipality is also a tourist destination. In general, agriculture is vulnerable to climate change, and key physical risks for Varberg are likely temperature and water stress, including both drought and extreme precipitation. Meanwhile, temperature increases may also provide productivity gains due to longer growth seasons.

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. In April 2021, the EU published its delegated act to outline proposed criteria for climate mitigation and adaptation, which it was tasked to develop after the EU Taxonomy Regulation entered into law in July 2020. The mitigation criteria in the EU taxonomy includes specific thresholds for real estate sector activities. Relevant activities for Varbergs Sparbank's green bond framework are Construction of new buildings, renovation and ownership and acquisition of buildings. CICERO Green will not here assess Varbergs Sparbank's framework against the full EU taxonomy. The design and construction of new buildings needs to ensure a net primary energy demand that is at least 20% lower than the level mandated by national regulations. Ownership or acquisition of buildings built before 2021 needs to have an energy performance in the top 15% of similar stock. All large non-residential buildings should have a dedicated energy management system. Energy saving renovations for existing properties that result in buildings lowering their primary energy demand with 30% are also to be classified as sustainable within the EU Taxonomy.

Governance Assessment

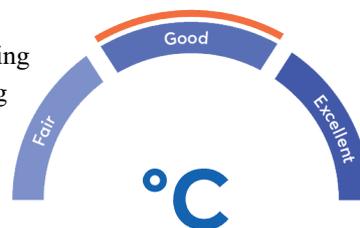
Four aspects are studied when assessing the Varbergs Sparbank's governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects 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.

Varbergs Sparbank has environmental targets relevant for its sector, i.e. quantified targets for its own emissions but most importantly strategies towards the impact of its financing activities. For loans of a certain size, ESG risks are part of the bank's credit risk analysis of customers. However, full scope 3 emissions are yet to be quantified,



and the bank has not implemented TCFD recommendations. The bank has recently scaled up its work on limiting the environmental impact of its financing and work is ongoing to better assess climate risk.

A green bond committee with environmental expertise is in charge of selecting eligible loans, and green bond proceeds are clearly tracked. The reporting regime is strong. Quantifiable KPIs are set for all project categories, and the allocation of proceeds will be subject to verification by a third party, whose report will also be made public.



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

Strengths

The required levels of energy use and the levels of certification required for green loans to be eligible under Varbergs Sparbank's green bond framework are relatively high. Energy use either have to be well below national regulations, or the level of energy certification have to be high (Energy Performance Certificate A or B). Buildings that have not yet achieved the relevant certification at the time of financing need to achieve that level within 24 months, and if not, they will be removed from the eligible green loans.

In addition to the project categories currently within Varbergs Sparbank's green loan portfolio (green buildings and agriculture), the bank also includes project categories where it expects some lending going forward, i.e. sustainable transportation and forestry. These two sectors are important for Sweden to reach its greenhouse gas emission reduction targets.

Weaknesses

There are no obvious weaknesses in Varbergs Sparbank's green bond framework.

Pitfalls

In reducing building's carbon footprint, one needs to address a number of issues, mainly energy use, buildings materials and public transport access. The buildings eligible in Varbergs Sparbank's framework have to either have a high level of environmental certification or energy use significantly below regulations. Having both these requirements, in addition to a screening for climate risk, would be more in line with the 2050 scenario. In addition, Nordic Swan Ecolabel is the only certification scheme that require life cycle assessment of building materials. The issuer has informed us that secondary homes are eligible under the framework, with potential associated impact on biodiversity and transport related emissions, depending on their location.



Organic farming has many environmental benefits, such as reduced use of fertilisers and pesticides, which in turn tends to improve soil health (reduced erosion, greater carbon and water retention), and greater biodiversity. However, substantial emissions are associated with animal-based products, including dairy, with the main sources being associated land use change (esp. forests, wetlands) for cultivating new areas, emissions from cattle and manure. The KRAV-certification scheme addresses some of the climate concerns by including requirements for a plan to limit greenhouse gas emissions from manure and by prohibiting cultivation of humus soil (soil in bogs and marshes). Meanwhile, climate aspects are not clearly addressed in the EU organic certifications. As organic farming tends to be less productive (per hectare) there is an argument that organic farming may lead to greater overall GHG emissions globally as other grasslands and forests are cleared for agriculture. This is the subject of an ongoing debate among scientists and policy makers, which investors should be aware of.

In order to assess climate risk more systematically, Varbergs Sparbank could report according to TCFD recommendations.



Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Varbergs Sparbank's green bond framework, dated August 2021.	Description of the green bond framework
2	Hållbarhetspolicy	General internal sustainability policy.
3	Hållbarhetsredovisning 2020	Annual sustainability report for 2020.
4	Klimatmål Varbergs Sparbank	Greenhouse gas emissions targets for the bank and materiality assessment.
5	Klimatbokslut Varbergs Sparbank 2019 og 2020	Greenhouse gas inventory for Varbergs Sparbank in line with GHG Protocol methodology.



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).

