



Sparbanken Västra Mälardalen Green Bond Second Opinion

October 25, 2021

Sparbanken Västra Mälardalen is a local Swedish savings bank, mainly exposed to the real estate, manufacturing and agriculture sectors. The bank was founded in 1845 and has a strong local focus, with all its financing activities in three municipalities in the western parts of Västmanland, West of Stockholm.

The bank expects half of proceeds from the first issuance under this framework to go to agriculture and 40% to green buildings, with a majority of refinancing. Certified organic agriculture, including the Swedish KRAV certification, is eligible. The bank gives loans to entire farms, of which most produce crops, some dairy and a minor share meat. For re-financing, green bond proceeds may finance fossil fuel machinery. For new corporate loans, fossil fuel equipment and livestock are excluded. Organic certifications have local environmental benefits and the KRAV scheme has energy efficiency requirements, but there is no scientific consensus that organic farming leads to significantly lower overall emissions. The green building category includes new building with energy performance in the range of 10 to 50% better than regulation. For existing buildings, the category might include older buildings with weaker energy performance. EPC labels may be up to 10 years old and the top 15% national and regional building stock in terms of energy performance is yet to be determined by the Swedish authorities, creating some uncertainty as to what could be financed. Eligible categories also include renewable energy and sustainable forestry, expected to each receive 5% of bond proceeds.

The issuer does not have any quantified targets for its portfolio or own operations, and will publish a sustainability report for the first time in 2022. The bank assesses environmental risks in its lending process, but for loans below SEK 8m, which represent half of its portfolio, the process is not documented. The bank currently offers favorable loans for solar panels and is looking into expanding its green loan offering. The issuer has assessed its real estate portfolio's exposure to the risk of flooding of the lake Mälaren.

Based on the overall assessment of the projects that will be financed under this framework, governance and transparency considerations, Sparbanken Västra Mälardalen's green bond framework receives a **CICERO Medium Green** shading and a governance score of **Good**. We encourage Sparbanken Västra Mälardalen to quantify the emissions associated with its financing activities and set quantified targets for both its own operations and its portfolio. The governance would benefit from a more systematic approach to climate risks, for example by following TCFD recommendations.

SHADES OF GREEN

Based on our review, we rate Sparbanken Västra Mälardalen'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 Sparbanken Västra Mälardalen's framework to be **Good**.



GREEN BOND PRINCIPLES

Based on this review, this Framework is found in line 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 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 Sparbanken Västra Mälardalen's green bond framework and related policies

Sparbanken Västra Mälardalen is a Swedish local savings bank providing a broad range of banking services to private individuals, companies and organisations in three municipalities in the western parts of Västmanland. Main customers are private individuals and small and medium-sized companies, with the main sectors being real estate, manufacturing, agriculture, and retail. Like most Swedish savings bank, Sparbanken Västra Mälardalen cooperates with Swedbank, which provides the opportunity to finance retail mortgages via Swedbank Hypotek, Sweden's largest issuer of covered bonds. Sparbanken Västra Mälardalen's business volume amounted to SEK 26 692m as of 31 December 2020, while net lending on its own books totaled SEK 8 021m.

Environmental Strategies and Policies

To contribute to sustainable resource use and limit greenhouse gas emissions and pollution, Sparbanken Västra Mälardalen integrates sustainability considerations in its business decisions. However, the bank does not yet have quantified targets for its emissions, nor the direct or indirect ones. Its sustainability work is currently not very well documented, as Sparbank Västra Mälardalen will present its first sustainability report in 2022. Nevertheless, the bank makes efforts to limit its emissions. The bank's scope 1 emissions come from company-owned cars and possible leakages of greenhouse gases from its refrigerant system, while scope 2 emissions come from purchased heat and electricity. The bank is in the process of preparing a supplier code of conduct, to be in use starting from 2022. The bank has implemented energy efficiency measures in its office buildings, as well as installed solar panels.

The bank's greatest environmental impact comes from its lending, products, and services. The bank has specific policies and routines for assessing sustainability risks, including environmental risks, in lending. For loans larger than SEK 8m, which represent more than half of the bank's portfolio, a separate sustainability analysis is done. The routines include an assessment of how those risks may influence the customer's and bank's profitability and reputation. For smaller loans, the assessment of ESG risks is not documented. In its customer relations, the bank strives to make its customers understand how different alternatives influence the environment. For example, the bank incentivizes its customers to invest in renewable energy by offering "sun loans" with favorable interest rates. The bank is looking into developing new lending products with favorable interest rates such as energy efficiency loans.

Sparbanken Västra Mälardalen has signed the UN principles for responsible banking. The bank's current sustainability reporting (in the annual report) is not in line with the Global Reporting Initiative guidelines, but the bank uses those guidelines as an inspiration. The bank does not report according to the recommendations of the Task Force on Climate Related Financial Disclosure (TCFD). Sparbanken Västra Mälardalen has participated in an investigation to evaluate the risk of flooding surrounding the lake Mälaren.

Use of proceeds

An amount equivalent to the net proceeds from the green bonds will be used to finance or re-finance green eligible loans. A majority of proceeds will be used for refinancing, and all financed activities are in Sweden.



According to the issuer, the framework focuses on activities making a substantial contributing to climate change mitigation, and has five project categories: green buildings, sustainable agriculture, sustainable forestry, energy efficiency and renewable energy.

The proceeds will not finance fossil fuel energy generation, nuclear energy generation, weapons, and defense 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, as well as a broad responsibility for the pool of green eligible loans and annual allocation and impact reporting. The GBC consists of representatives from the finance, credit and sustainability departments. Decisions are taken by consensus. Sparbanken Västra Mälardalen will assure that the sustainability expertise always relies within the GBC.

Only assets approved in the bank's regular credit process can be eligible for green funding, and the qualification for green criteria cannot override credit risks. Loans larger than SEK 8m are subject to a separate sustainability analysis where risks related to environmental, social and governance are assessed. For smaller loans, which represent approximately half of the bank's portfolio, the bank also has a dialogue with its clients on ESG, but this is not documented. The bank does not have tools in place to consider life cycle missions, assess supply chain emissions and risk of lock-in to fossil fuel technologies when selecting eligible green loans. The issuer is awaiting guidance on these issues from the Swedish Banking Association and the Association of Real Estate Owners ("Fastighetsägarna").

The selection process for existing corporate and private green loans includes the following steps:

- 1) The pool of green eligible loans is identified by the finance department.
- 2) The latter mentioned is presented for the GBC.
- 3) Following approval in the GBC, the green eligible loans are inserted in a specific spreadsheet called "Green Register".

The selection process for new corporate green loans consists of following:

- 1) Client executive fills in a specific green application together with supporting documentation when preparing material for the credit department.
- 2) The credit department assesses the loans' alignment with the framework criteria.
- 3) Loans assessed as aligned are presented to the GBC.
- 4) Green loans approved by the GBC are registered in the Green Register.

Finally, the selection process for new private green loans is subject for further development and is dependent on internal IT systems. However, the GBC has final approval of private green loans in the same manner as for corporate green loans.

Management of proceeds

CICERO Green finds the management of proceeds of Sparbanken Västra Mälardalen to be in line with the Green Bond Principles.



An amount equivalent to the net proceeds from Sparbanken Västra Mälardalen's green bonds will be tracked by using the "Green Register". All green bonds issued by Sparbanken Västra Mälardalen will be managed on a portfolio level. This means that a green bond will not be linked directly to one (or more) pre-determined green eligible loans. The bank will keep track and ensure there are satisfactory green eligible loans in the portfolio. Loans can, whenever needed, be removed or added to/from the green eligible loans' portfolio. Once per year, two parameters are reviewed: i) whether the loans still fulfill the criteria in the framework and ii) volume of loans, i.e. if any repayments have been made to the outstanding green loans.

Any unallocated proceeds temporary held by Sparbanken Västra Mälardalen will be invested in accordance with the internal requirements for the liquidity reserve. According to the issuer, these investments will not include fossil fuel related assets such as car/oil and gas company stocks.

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.

Sparbanken Västra Mälardalen commits to annual reporting on both allocation and impact until no green bonds are outstanding. The report will be published on the bank's website. The allocation of proceeds reporting will cover the following:

- Total amount of Green bonds issued
- Share of proceeds used for financing/refinancing and share of proceeds used for each project category
- Share of unallocated proceeds (if any)

The impact reporting will, where reasonable and relevant data is available, including the following quantitative indicators:

- Green buildings:
 - o Energy usage in kWh/sq. m./year
 - o Estimated annual greenhouse gas emissions reduced or avoided (tCO₂e)
 - o Type of certification including level, if any (e.g. Miljöbyggnad Silver etc.)
- Sustainable agriculture:
 - o Cropland under organic agriculture practices (hectare)
 - o Organic farming certification scheme
- Sustainable forestry:
 - o Land area certified (hectare)
- Energy efficiency:
 - o Annual energy saved (MWh)
- Renewable energy:
 - o Installed capacity (MWh) or expected annual generation (MWh)

Methodologies for calculating greenhouse gas reductions, including grid emission factors, will be disclosed. Grid emission factors are derived from a combined build margin (BM) and operating margin (OM) for the Nordic energy market, as suggested by the Nordic Public Sector Issuers (NPSI) in 2020. Allocation of proceeds will be subject to an annual review by an external party/verifier, who will conduct a limited assurance report that the proceed allocation is in line with the framework.



3 Assessment of Sparbanken Västra Mälardalen's green bond framework and policies

The framework and procedures for Sparbanken Västra Mälardalen'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 Sparbanken Västra Mälardalen 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 Sparbanken Västra Mälardalen's green bond framework, we rate the framework **CICERO Medium Green**.

Eligible projects under the Sparbanken Västra Mälardalen'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 buildings ¹	Category I: New residential or commercial buildings & major renovations <ul style="list-style-type: none">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 or other minimum equivalent certification standard in terms of energy consumption after the completed constructionii) New construction with an energy consumption at least 20% below the applicable national building regulation²iii) New construction with an energy performance certificate (EPC) A or B	Light to Medium Green <ul style="list-style-type: none">✓ Green buildings are expected to receive 40% of bond proceeds. The buildings currently in the portfolio are residential, and financed buildings are expected to be mainly residential.✓ Energy use and building materials are the two main sources of emissions from buildings. In a 2050 low carbon perspective, building energy performance needs to improve significantly. Transport solutions, access to renewable

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

² 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.



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| <p>iv) Major renovations resulting in a reduced energy consumption by at least 30%</p> <p>Category II: Existing residential or commercial buildings</p> <p>i) Buildings fulfilling requirements for i) and ii) under Category I.</p> <p>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 stock³</p> | <p>energy for heating and electricity are also important.</p> <ul style="list-style-type: none">✓ The eligible building certification criteria reflect a good environmental standard, however these points-based system of certifications do not guarantee low climate impact.✓ According to the issuer, buildings with fossil fuel heating will not be financed.✓ According to the IEA, efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand.✓ The new construction with environmental certifications that are eligible have energy performance varying from 10% to 25% better than current regulations. New buildings with EPC A and B have energy performance that is respectively at least 50 and 25 better than regulation. Meanwhile, older buildings can have labels that are up to 10 years old, and therefore considerably weaker energy wise.✓ It is not clear how the level of ambition of the top 15 percent of national or regional building stock will be assessed. As long as the methodology to define this has not been decided by the Swedish Building Authority, there is uncertainty related to what this entails. This could include buildings that are not better than regulations.✓ No secondary homes are expected to be financed. Generally, according to the issuer, the buildings financed have reasonable access to public transport. |
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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) link 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



- ✓ The bank has assessed the exposure of its current property portfolio to the risk of flooding, and views its portfolio as having minor exposure to that specific risk. Exposure to physical climate risk is currently not part of the bank's standard process, and climate resiliency is not necessarily addressed by the certifications.
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Sustainable
agriculture



Organic farming certified according to
national legislation or EU-legislation

Light to Medium Green

- ✓ This category is expected to receive approx. 50% of bond proceeds.
- ✓ Eligible certifications are mostly KRAV (Swedish organic certification), and to some extent EU certification for organic production. The KRAV certification has a strong focus on energy use. Organic farming has broad environmental benefits but overall impacts on greenhouse gas emissions remain uncertain.
- ✓ Green loans are general loans given to certified farms. According to the issuer, most of the loans are spent on agricultural buildings (including solar panels). The farms produce mostly crops, some dairy and a smaller share of livestock (farms that combine crops and livestock represent some 7% of the existing portfolio). According to the issuer, there is no risk of land use change, i.e. expansion of the area of cultivated land. For re-financing of loans, fossil fuel machinery could be financed, but the issuer has excluded fossil fuel equipment and livestock from new corporate loans.
- ✓ Animal-based food (livestock and dairy) tend to have a much higher carbon footprint than plant-based food. Among the main sources of greenhouse gas emissions in agriculture are land use change (esp. forests, wetlands) for cultivating new areas, methane emissions from cattle and the use of some types of artificial fertilizer (both from production and use). The use of fossil fuels in machinery is another, albeit smaller source of emissions.
- ✓ Organic farming limits the use of mineral nitrogen fertilizers. However, increased use of manure as an alternative likely increases the need for cattle.



- ✓ The eligible certifications do not restrict the farming of cattle in general. Merely the number of cattle per unit of land (stocking density) must be limited to minimize overgrazing, erosion, or pollution caused by animals or by the spreading of their manure⁴, and due to the restricted use of medications.
- ✓ 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 renewable⁵. The revised 2021 standard requires greenhouse gas accounting for agricultural land of at least 200 hectares or greenhouses of at least 300 square meters.

Sustainable forestry



Sustainable forestry defined as forestry certified by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC)

Light to Medium Green

- ✓ This category is expected to receive 5% of bond proceeds.
- ✓ 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.
- ✓ Re-financing could include fossil fuel based machinery, but new loans will exclude fossil fuel equipment.

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

- ✓ The bank has no lending to this category in its existing portfolio and the category is expected to receive a minimal share of proceeds.

⁴ [Organic production and products | European Commission \(europa.eu\)](https://ec.europa.eu/euro-observatory/organic-production-and-products/)

⁵ [Standards for KRAV-certified Production 2021 \(triggerfish.cloud\)](https://triggerfish.cloud/standards-for-krav-certified-production-2021/)



		<ul style="list-style-type: none"> ✓ 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”. ✓ 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. ✓ Be aware of potential rebound effects following energy efficiency improvements.
Renewable energy	<ul style="list-style-type: none"> i. Solar energy ii. Wind power iii. Hydropower 	<p>Dark Green</p> <ul style="list-style-type: none"> ✓ Currently the bank has no lending to this category, and it is not expected to exceed 5% of bond proceeds. ✓ According to the issuer, wind and hydro power projects financed would not be large. The bank does not require an environmental impact assessment. ✓ Most of the solar energy financed is expected to be roof top, which has limited environmental impact.

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.

Agriculture accounts for 14% of Sweden’s greenhouse gas emissions (excluding those from land use, land use change and forestry)⁶. The sources of these emissions were approximately half nitrous oxide and the other half methane. The latest available agriculture emissions in Sweden were some 9% lower than in 1990, owing to a lower number of cattle, lower use of nitrogen mineral fertilizer and a smaller area of cultivated land. A long-term food

⁶ Sweden’s National Inventory Report 2021 to the UNFCCC: [Sweden. 2021 National Inventory Report \(NIR\) | UNFCCC](#)



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. In general, agriculture is vulnerable to climate change, and key physical risks in Sweden are expected to be various types of temperature and water stress, including both drought and extreme precipitation. Meanwhile, temperature increases may also provide productivity gains due to longer growth seasons.

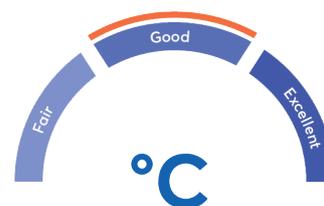
The construction and real estate sector have a major environmental impact. Generally, in the Nordic context, approximately half of life-cycle emissions from buildings stem from materials/construction⁷. The other half stems from energy use, which may become less important over time with the increasing 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 buildings⁸.

Governance Assessment

Four aspects are studied when assessing the Sparbanken Västra Mälardalen'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.

While having good intentions in its sustainability work, the issuer does not have any quantified environmental targets for its portfolio nor for its operations. The issuer will publish a sustainability report for the first time in 2021, and has, through adhering to the UN principles for responsible banking, committed to set measurable sustainability targets. Sparbanken Västra Mälardalen has assessed risks related to the flooding of the lake Mälaren, and work is ongoing to improve its assessment of the climate risk exposure of its portfolio.

The selection process under the green bond framework is clear and environmental expertise is represented in the Green Finance Committee. The bank is well aware that its lending activities have the largest environmental impact, but for loans below SEK 8m, sustainability is not addressed through a documented process.



The planned impact and allocation reporting is adequate and includes one relevant key performance indicator for each project category. The reports will be made publicly available on an annual basis, and the allocation report will be subject to external verification.

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

⁷ https://cicero.oslo.no/file/2/sectorbriefs_realestate_17_12.pdf/download

⁸ <https://www.worldgbc.org/how-can-we-make-our-buildings-green>



Strengths

It is a strength that all the steps in the process of selecting loans eligible for green financing are clearly defined, including the respective roles of client executives and the credit department for new corporate loans, and the role of the finance department for existing green private and corporate loans.

For new buildings, the required levels of energy use and environmental certifications for green loans to be eligible under Sparbanken Västra Mälardalen green bond framework represent steps towards the long term vision of a low carbon economy. With the required levels of EPC, the energy performance of the new buildings is expected to be below national regulations, in a range from approx. 10 to 50% better. The required improvement rate of 30% in energy efficiency for renovations is in line with the IEA's Sustainable Development Scenario. Meanwhile, there are two caveats for existing buildings: i) older buildings can have EPC labels that are up to 10 years old, and therefore considerably weaker energy wise ii) There is a risk that the top 15% of national or regional building stock (yet to be determined) includes buildings that are not better than current regulations.

Weaknesses

We see it as a weakness that vehicles running on fossil fuel as well as livestock could be financed under the framework, namely in re-financing in the sustainable agriculture and the sustainable forestry categories.

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 Sparbanken Västra Mälardalen's green bond framework have to either have an 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 requires life cycle assessment of building materials. The uncertainty around the top 15% of the national and regional building stock, which is yet to be determine by the National Board of Housing, Building and Planning (Sw. Boverket) and Swedish Energy Agency (Sw. Energimyndigheten), implies a risk that buildings that are not better than regulations could be financed. When the top 15% are determined by the Swedish authorities, it is the responsibility of the issuer to assess if this is sufficiently ambitious and ensure that it is robustly implemented under the framework.

While it is positive that the issuer has assessed the exposure of its real estate portfolio to the flooding of the lake Mälaren, climate change is expected to affect all sectors and the sectors represented in the bank's portfolio are likely to be impacted by other climate-related hazards, such as droughts and heat waves. In order to address climate risk more systematically, Sparbanken Västra Mälardalen could report according to TCFD recommendations.

The project category sustainable agriculture restricts the use of proceeds to projects certified under the EU organic farming⁹ and the KRAV label. Organic farming pursues several goals, such as consumers' health, animal welfare, local environmental considerations as well as climate impacts. The variety of goals means a variety of related strategies and management plans at the farm level. The scientific community currently does not have all the tools and methods necessary to capture this variety. Therefore, there is currently a lack of scientific proof that organic food production is overall more environmentally friendly compared to conventional food production¹⁰. One example for the complexity of measuring the climate and environmental footprint is the use of certain artificial fertilizers. There are considerable greenhouse gas emissions connected to the production and use of some fertilizers, and their use is restricted under the eligible labels. The recommended replacement, animal manure,

⁹ Council Regulation (EC) No 834/2007; COMMISSION REGULATION (EC) No 889/2008

¹⁰ [Organic food worse for the climate? -- ScienceDaily](#)



stems among other sources from cattle. Cattle is one of the major sources of greenhouse gas emissions in agriculture in the form of methane. Increased demand for manure would increase the need for cattle, and due to restrictions in the organic labels, these cattle can only be fed with organic feed. Growing organic feed in return increases the need for manure as a fertilizer. In conclusion, this project category is shaded light to medium green because there are some positive elements from a climate and environmental perspective. Land use change as one of the major sources of emissions, such as draining of wetlands, does not appear to be a major risk for the projects financed under this framework. The KRAV label has a strong focus on reducing emissions from energy use. Both labels tend to lower the number of cattle per land unit and restrict the use of some types of fertilizers. This is positive seen in isolation, however, there is a risk of higher emissions connected to increased need for manure when applied on a large scale.



Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Sparbanken Västra Mälardalen Green Bond Framework, dated October 2021.	Green bond framework.
2	Annual report 2020.	Financial annual report for the year 2020.
3	Sustainability policy, dated March 2021.	High level description of the bank's sustainability policy.
4	Sustainability Risk Policy, dated February 2021.	Description of how bank will inform about sustainability risk of financial products distributed by the bank.



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, the International Institute for Sustainable Development (IISD) and the School for Environment and Sustainability (SEAS) at the University of Michigan.

