

‘Second Opinion’ on SBAB Bank AB’s (publ) Green Bond Framework

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Summary

SBAB Bank AB (publ) "SBAB" is 100 percent owned by the Swedish state and focuses on mortgage; loan and savings services and products for individuals, property companies and tenant-owner associations.

Overall, the SBAB Green Bond Framework provides a detailed and sound framework for climate-friendly investments. The Green Bond Framework lists eligible projects that are supportive of the objective of promoting a transition to low-carbon and climate-resilient growth and is supported by a strong governance structure. Eligible projects under the Green Bond Framework are those directed towards sustainable buildings and real estate. SBAB aims to provide products and services while having the least impact on the environment. Furthermore, SBAB also aims to reduce the impact that they already have on the environment illustrating a sense of environmental responsibility.

CICERO is encouraged to see that SBAB includes in their annual "Green Bond Investor Letter" impact reporting where relevant. Impact reporting is an important tool to enhance transparency in regard to the projects economic risk from climate change and the environmental effectiveness of the projects. SBAB's Green Bonds can be used to finance new projects but also refinance projects specifically for the project category of sustainable buildings.

Based on an overall assessment of the activities that will be financed by the green bonds, SBAB's Green Bond Framework gets the Medium Green shading. Despite the robust building criteria selected, they still may not represent the best technologies available. Furthermore, additional energy efficiency criteria is lacking which would strengthen the current Green Bond Framework to a Dark Green shading.

1. Introduction and Background

As an independent, not-for-profit, research institute, CICERO (Center for International Climate and Environmental Research - Oslo) provides Second Opinions on institutions' framework and guidance for assessing and selecting eligible projects for green bond investments, and assesses the framework's robustness in meeting the institutions' environmental objectives. The Second Opinion is based on documentation of rules and frameworks provided by the institutions themselves (the client) and information gathered through e-mail correspondence with the client.

CICERO has established the global Expert Network on Second Opinions (ENSO), a network of independent non-profit research institutions on climate change and other environmental issues, to broaden the technical expertise and regional experience for Second Opinions. CICERO works confidentially with other members in the network to enhance the links to climate and environmental science, building upon the CICERO model for Second Opinions. In addition to CICERO, ENSO members currently include Basque Center for Climate Change (BC3), International Institute for Sustainable Development (IISD), Stockholm Environment Institute (SEI), and Tsinghua University's Institute of Energy, Environment and Economy. A more detailed description of CICERO can be found at the end of this report.

CICERO's Second Opinions are normally restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general level. CICERO does not validate or certify the climate effects of single projects, and thus, has no conflict of interest in regard to single projects. CICERO is neither responsible for how the framework or mechanisms are implemented and followed up by the institutions, nor the outcome of investments in eligible projects.

This note provides a Second Opinion of SBAB's Green Bonds Framework and policies for considering the environmental impacts of their projects. The aim is to assess the SBAB's Green Bonds Framework as to its ability to support SBAB's stated objective of promoting the transition to low-carbon and climate resilient growth.

CICERO takes a long-term view on activities that support a low-carbon climate resilient society. In some cases, activities or technologies that reduce near-term emissions result in net emissions or prolonged use of high-emitting infrastructure in the long-run. CICERO strives to avoid locking-in of emissions through careful infrastructure investments, and moving towards low- or zero-emitting infrastructure in the long run. Proceeds from green bonds may be used for financing, including refinancing, new or existing green projects as defined under the mechanisms or framework. CICERO assesses in this Second Opinion the likeliness that the issuer's categories of projects will meet expectations for a low carbon and climate resilient future.

Expressing concerns with 'shades of green'

CICERO Second Opinions are graded dark green, medium green or light green, reflecting the climate and environmental ambitions of the bonds and the robustness of the governance structure of the Green Bond Framework. The grading is based on a broad qualitative assessment of each project type, according to what extent it contributes to building a low-carbon and climate resilient society.

This Second Opinion will allocate a 'shade of green' to the green bond framework of CICERO:

- Dark green for projects and solutions that are realizations today of the long-term vision of a low carbon and climate resilient future. Typically, this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.
- Medium green for projects and solutions that represent steps towards the long-term vision, but are not quite there yet.
- Light green for projects and solutions that are environmentally friendly but do not by themselves represent or is part of the long-term vision (e.g. energy efficiency in fossil based processes).
- Brown for projects that are irrelevant or in opposition to the long-term vision of a low carbon and climate resilient future.

The project types that will be financed by the green bond primarily define the overall grading. However, governance and transparency considerations also factor in, as they can give an indication whether the institution that issues the green bond will be able to fulfil the climate and environmental ambitions of the investment framework.

2. Brief Description of SBAB's Green Bond Framework and Rules and Procedures for Climate-Related Activities

SBAB Bank AB (publ) "SBAB" is 100 percent owned by the Swedish state. SBAB offers loans and savings products to private individuals. Residential mortgages are SBAB's core product, which are supplemented by consumer loans, savings accounts for deposits and insurance mediation in the form of home and loan insurance products. In addition, SBAB offers savings and housing financing to property companies and tenant-owner associations. SBAB was founded in 1985, and obtained its banking license in 2011, and distributes its services and products through offices based in Solna, Karlstad, Gothenburg and Malmö. SBAB's headquarters are located in Solna, Sweden.

The Green Bond Framework developed by SBAB allows the bank to issue senior unsecured notes in the form of Green Bonds. SBAB aims to provide products and services while having the least impact on the environment. SBAB has managed to reduce their own carbon footprint by 20 % between 2010 and 2014 by reducing travel and electricity consumption. SBAB has set sustainability goals, which includes the development of sustainable products. In 2014, SBAB invested in a new system to manage and report on the environmental data, which illustrates a continuing responsibility towards environmental impacts of the SBAB and how they can be improved. SBAB believes that the financial sector has a crucial role to play in driving sustainability. By issuing green bonds, SBAB wants to contribute to sustainable development in the financial sector. Green Bond issuances can broaden the investor base while contributing to the environmental awareness of the customers in the real estate sector. As of the financial year 2015, SBAB reports sustainability in an Integrated Annual Report. The Integrated Annual Report has a clear, integrated approach, integrating sustainability and financial information inspired by the International Integrated Reporting Council's (IIRC) framework. In addition SBAB also reports its sustainability efforts in accordance with the Global Reporting Initiative's (GRI) G4 Core guidelines. SBAB's Integrated Annual Report also constitutes SBAB's Communication on Progress (COP) to the UN Global Compact. As per the "Imug Sustainability Rating of Bank Bonds 2015", SBAB lies in the top 10 of all rated issuers and ranks 1st of all rated issuers in Scandinavia.

SBAB Green Bond eligible projects are intended to promote the transition to a low carbon and climate resilient development pathway. Eligible projects under the Green Bond Framework are those directed towards sustainable buildings and real estate. There is a possibility that building resilience projects be included as an eligible project type upon future reviews of the Green Bond Framework. This would require the collection of more in-depth data for verification which is currently not obtained by SBAB and therefore straight forward eligibility criteria was opted for.

To enable investors to follow the development and provide insight to prioritised areas, SBAB will provide at least annually a Green Bond Investor Letter which will include: information on issued green bonds; description of the allocation of proceeds for each category (including project examples where customer approval for publication has been obtained); and, the total disbursed funds. The Green Bond Investor Letter will be made publically available on SBAB's web page. SBAB encourages impact reporting from their customers and intends to include such reporting in the Green Bond Investor Letter where applicable.

SBAB's Green Bonds can be used to finance eligible projects or refinance maturing Green Bonds issued by SBAB.

The table below lists the documents that formed the basis for this Second Opinion:

Table 1: Documents Reviewed

Document Number	Document Name	Description
1	SBAB Green Bond Framework	Description of SBAB's Green Bond Framework
2	SBAB Policy för hållbart företagande	SBAB's Policy for Sustainable Business denotes how SBAB contributes to Sustainable Development and provide employees with instructions and guidelines related to economic, social and environmental responsibility.
3	SBAB Hållbarhetsredovisning 2014	SBAB's Sustainability Report for 2014 discloses sustainability information related to three main areas including sustainable finance, sustainable living, and transparency and accountability.
4	SBAB Klimatredovisning 2014	SBAB's Report on Climate Accounting for 2014 provides a detailed outline of SBAB's carbon footprint (with energy consumption).
5	SBAB Etikpolicy	SBAB's Ethics Policy elaborates on the business standards such that the customer privacy and interests are considered. This policy and its underlying instructions apply to all employees at SBAB.
6	SBAB Uppförandekod	SBAB's Code of Conduct.
7	Jämställdhets- och mångfaldspolicy	SBAB's policy elaborating on internal gender, equality and diversity standards
8	Policy för att främja mångfald i styrelsen	SBAB's policy regarding the diversity of board members and the standards expected in terms of competence, qualities and skills.
9	SBAB Policy för åtgärder mot penningtvätt och finansiering av terrorism	SBAB policies for the prevention of money laundering and terrorist financing
10	<p>Kriterier</p> <ul style="list-style-type: none"> a. Boverket – Energideklarationer b. Miljöbyggnad <ul style="list-style-type: none"> i. Nyproduktion ii. Befintliga bestånd c. Svanen d. Passivhus. For further reference, see http://passipedia.passiv.de/ppediae/n/basics/passive_house_checklist e. EU Green Building. For further reference, see https://www.sgbc.se/ f. LEED g. BREEAM 	Various Green Buildings standards and regulations

3. Assessment of SBAB’s Green Bond Framework and environmental policies

Overall, the SBAB’s Green Bond Framework provides a detailed and sound framework for climate-friendly investments. The framework and procedures for SBAB’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, whereas the weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where issuers should be aware of potential macro-level impacts of investment projects.

Eligible projects under the 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 certainty to investors that their investments deliver environmental returns as well as financial returns. The Green Bond Framework has been developed according to the “Green Bond Principles” established by the International Capital Market Association. 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”.

Table 2 Eligible project categories

Category	Eligible project types	Green Shading and some concerns
Sustainable Buildings	<ul style="list-style-type: none"> • New construction, rehabilitation and renovation issued by corporate entities or tenant-owner associations with one or more of its residential or commercial buildings possessing, or that will possess following completion, an energy performance certificate issued by the Swedish National Board of Housing, Building and Planning of any energy class and one of the following certifications: <ol style="list-style-type: none"> a) Energy Performance Certificate with energy class A or B; b) Miljöbyggnad (minimum certification “silver”); c) Svanen; d) Passivhus; e) Green Building; f) LEED (minimum certification “gold”); or g) BREEAM or BREEAM-SE (minimum certification “excellent”). 	<ul style="list-style-type: none"> ✓ Medium Green ✓ Even though, the accepted building criteria is robust, however they may not represent best available technologies (e.g. Miljöbyggnad Gold) ✓ There is no mention of adaptation measures, which is integral to long term sustainable development and climate change resilience. ✓ It may be useful to have additional energy efficiency criteria to ensure environmental integrity of projects.
Sustainable Buildings	<ul style="list-style-type: none"> • Rehabilitation and renovation issued by corporate entities or tenant-owned associations with one or more of its residential or commercial buildings with <ol style="list-style-type: none"> a) Final energy use per m² and year that has been, or will be, reduced by at least 35%. 	<ul style="list-style-type: none"> ✓ Medium Green ✓ The building criteria are good, however they may not represent best available technologies.

The buildings sector accounts for over 40% of primary energy consumption in most International Energy Agency (IEA) member countries (IEA/UNDP, 2011). Sweden provides information about a buildings energy attributes by the issuance of Energy Performance Certificates. These certificates allow entities buying and renting homes to compare different buildings to each other. There are seven energy classes (“A to G”) with energy class “A” representing low energy consumption while energy class “G” represents high energy consumption. The scale of the seven energy classes is based on the requirements of the energy required of new buildings being constructed today. SBAB applies reasonably stringent criteria for both new buildings and rehabilitation of existing buildings (Energy Performance Certificate (EPC) of energy class A or B issued by the Swedish National Board of Housing, Building and Planning or EPC of any other energy class and an additional certification (Miljöbyggnad (silver), Svanen, Passive House, Green Building, LEED Gold, BREEAM or BREEAM-SE (minimum excellent)).

Some of these certification systems (LEED gold, BREEAM excellent, Miljöbyggnad silver and the Nordic Swan) do provide some level of measurement of the environmental footprint of a building, including energy efficiency measures. LEED includes aspects important to long-term sustainable development, e.g. site selection and consideration of brownfields, urban density and planning, and access to public transportation. However, a LEED Gold rating does not guarantee a climate friendly building. Points can be earned for activities that do not have a direct impact on the climate or the environment. Likewise, it is possible to achieve the highest ratings with little consideration of climate change issues. Another similar system originating in the United Kingdom is the BREEAM ratings. BREEAM SE (BREEAM, 2013) is the Swedish adaptation of this system. BREEAM also includes a comprehensive consideration of environmental and energy issues associated with buildings, including a category on land use and site selection. A rating is issued based on points earned, similar to LEED, with minimum requirements for some environmental issues.

The Miljöbyggnad certification system is specific to Sweden. The system focus on energy use, indoor climate and material use in the buildings and involves a preliminary rating, which is then followed up and verified in the finished building. This system is more detailed than LEED or BREEAM SE in some aspects such as the calculation of energy efficiency, but do not cover subjects such as management, water use, waste handling, transport and siting impacts. See Miljöbyggnad (2012a, b, c) for elaboration on this framework and K. Johansson and A. Hedin (2011) for a comparison of the different classification schemes. The Nordic Swan scheme (“Svanen”) resembles BREEAM, but is focused on the buildings themselves and has a few more obligatory criteria than BREEAM. See Skoghøy (2012) for a comparison of the two classification schemes.

CICERO recommends additional energy efficiency requirements to be eligible for green bonds financing. CICERO Dark Green shading is in particular difficult to achieve in the building sector because buildings have a long lifetime. CICERO Dark Green shading in the building sector should therefore conform to strict measures. Dark Green is therefore reserved for the highest building standards such as LEED Platinum, Zero-Energy buildings and passive houses. Considering that other building standards are accepted as well, the project category gets the Medium Green Shading.

Strengths

- Reporting and transparency is at a high level with public disclosure annually on the SBAB website;
- SBAB has a comprehensive system for monitoring and assessing progress on an annual basis;

- SBAB is constantly looking for new initiatives to reduce their environmental footprint including encouraging climate and environmental integrity in its supply chain;
- SBAB have clauses for the disqualification of proceeds if the eligibility criteria are not adhered to;
- SBAB will undertake assurance on the use of proceeds with reports provided by the internal auditor.

Weaknesses

There are no obvious weaknesses within SBAB's Green Bond Framework.

Pitfalls

Impacts beyond the project boundary

Due to the complexity of how socio-economic activities impact the climate, a specific project is likely to have interactions with the broader community beyond the project borders. These interactions may or may not be climate-friendly, and thus need to be considered concerning the net impact of climate-related investments.

Rebound effects

Efficiency improvements may lead to rebound effects. When the cost of an activity is reduced there will be incentives to do more of the same activity. From the project categories in Table 2 an example is improved energy efficiency, which in part may lead to more energy use. SBAB should be aware of such effects and possibly avoid Green Bond funding of projects where the risk of rebound effects is particularly high.

Transparency, monitoring, reporting and verification

Transparency, reporting and verification are key in order to enable investors to follow the implementation of the SBAB's Green Bond Framework. Without becoming too burdensome impact reporting enhances transparency in regard to the projects economic risk from climate change and the environmental effectiveness of the projects. One of the positive areas of the Green Bond Framework proposed by SBAB is the provision for disqualification and non-compliance. SBAB will evaluate whether projects adhere to the eligibility criteria annually and if not, these projects will be disqualified.

SBAB's aims to disclose the findings of this second opinion on their website together with any assurance reports undertaken by an internal and/or external auditor on the use of proceeds of green bonds, annually. To enable investors to follow the development and provide insight to prioritised areas, SBAB will provide at least annually a Green Bond Investor Letter which will include: information on issued Green Bonds; description of the allocation of proceeds for each category (including project examples where customer approval for publication has been obtained); and, the total disbursed funds. The Green Bond Investor Letter will be made publically available on SBAB's web page.

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