

# **‘Second Opinion’ on SBAB Group’s Green Bond Framework 2019**

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07 January 2019

# Summary

SBAB Bank AB (publ) (“SBAB”) is a Swedish mortgage lender, wholly owned by the Swedish state. SBAB primarily provides mortgages but also offers loan and savings products to consumers, tenant-owners’ associations and property companies in Sweden. SBAB has two business areas: Retail, and Corporate Clients & Tenant-Owners’ Associations.

SBAB published its first Green Bond Framework in 2016, also assessed by CICERO. This updated green bond framework is the first Green Bond Framework to be published by the SBAB Group, permitting both SBAB and the subsidiary SCBC to issue green bonds under the group’s Green Bond Framework<sup>1</sup>. SCBC’s primary purpose is to issue covered bonds, i.e. bonds or other comparable full-recourse debt instruments secured by a pool of mortgage credits (the “Cover Pool”), in the Swedish and international capital markets. The proceeds of green bonds issued under this framework will be allocated to financing mortgages (Sw. bolån) of energy efficient buildings, consumer loans and corporate loans to improve a property’s energy usage and other environment-enhancing improvements on a property. Both new and existing projects are eligible.

The SBAB Group has solid management and governance structures, as well as plans for regular and transparent reporting about green bond project achievements to investors and the public. The overall assessment of the governance structure of SBAB Group’s Green Bond Framework is a rating of Excellent, in acknowledgement of the issuers’ detailed plans for the selection and reporting aspects of eligible projects. We note that external verification of the tracking method for the use of proceeds and the management of proceeds will be carried out annually. The bank’s sustainability profile more broadly is strong as well, with a strong focus on energy efficiency in both its investment portfolio and own operations. Moreover, SBAB undertakes sustainability reporting in accordance with GRI (Core) principles and is a signatory of UN Global Compact. Nevertheless, we note that other sustainability metrics, such as clean air, water, and waste receive less attention – both in the selection of buildings to include in the green bond portfolio as well as the bank’s internal environmental footprint. Also, SBAB does not currently track the heating sources of its properties. Another potential area of improvement is risk: the bank does not currently carry out climate scenario analysis or risk assessments of its property portfolio, but has recently undertaken a GAP analysis of sustainability issues and is now intending to start such assessments.

Based on the overall assessment of the project types that will be financed by the green bonds and governance and transparency considerations, SBAB’s Green Bond Framework receives a Medium Green shading.



°CICERO  
Medium Green

# Contents

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<b>Summary</b>	<b>2</b>
<b>1 Introduction and background</b>	<b>4</b>
Expressing concerns with ‘shades of green’	5
Assessing governance	5
Overall shading	5
<b>2 Brief Description of SBAB Group’s Green Bond Framework and rules and procedures for climate-related activities</b>	<b>6</b>
Use of Proceeds:	7
Selection:	7
Management of proceeds:	7
Transparency and Accountability:	8
<b>3 Assessment of SBAB Group’s Green Bond Framework and environmental policies</b>	<b>10</b>
Overall shading	10
Eligible projects under the SBAB Group’s Green Bond Framework	10
Building sector certification schemes and the SBAB Group’s Green Bond Framework	12
Governance assessment	13
Strengths	14
<i>Governance</i>	14
<i>Project Categories</i>	14
Weaknesses	15
Pitfalls	15
<i>Project Categories</i>	15
<i>Rebound effects</i>	15
<b>Appendix: About CICERO</b>	<b>16</b>

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# 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 during meetings, teleconferences and e-mail correspondence with the client.

CICERO 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 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. ENSO 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.

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 the SBAB Group's Green Bond Framework and environmental policies. The aim is to assess the SBAB Group's Green Bond Framework as to its ability to support the SBAB Group's (as defined below in section 2) stated objective of supporting the global transition from a fossil-based economy towards a low-carbon and climate resilient economy.

This Second Opinion is based on the SBAB Group's Green Bond Framework presented to CICERO by the issuers. Any amendments or updates to the framework require that CICERO undertake a new assessment. 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 likelihood that the issuers' 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 SBAB Group's 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. The shading methodology also aims at providing transparency to investors when comparing green bond frameworks exposure to climate risks. A dark green project is less exposed to climate risks than a lighter green investment.

This Second Opinion will allocate a 'shade of green' to the SBAB Group's Green Bond Framework:

- **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.

### Assessing governance

In assessing the governance quality of the issuer, four aspects are studied: The policies and goals of relevance to the green bond framework; the selection process used to identify eligible projects under the green bond framework; the management of proceeds and 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.

### Overall shading

The project types that will be financed by the green bonds primarily define the overall grading. However, governance and transparency considerations are also important because they give an indication whether the institutions that issues the green bonds will be able to fulfil the climate and environmental ambitions of the green bond framework. Hence, the governance assessment plays a role in the overall shading of the green bond framework. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The overall shading reflects an ambition of having the majority of the project types well represented in the future portfolio, unless otherwise expressed by the issuer.

## 2 Brief Description of SBAB Group's Green Bond Framework and rules and procedures for climate-related activities

SBAB Bank AB (publ) ("SBAB") is a Swedish mortgage lender. It was founded in 1985 and is wholly owned by the Swedish state. SBAB primarily provides mortgages, but also offer loan and savings products to consumers, tenant-owners' associations and property companies in Sweden.

The SBAB group comprise SBAB and the subsidiaries AB Sveriges Säkerställda Obligationer (publ) (with the parallel trade name The Swedish Covered Bond Corporation) ("SCBC") and Booli Search Technologies AB ("Booli"). SCBC's primary operations comprise the issuance of covered bonds, i.e. bonds or other comparable full-recourse debt instruments secured by a pool of mortgage credits (the "Cover Pool"), in the Swedish and international capital markets. SCBC does not pursue lending activities but instead acquires loans that meet certain criteria from SBAB on a regular basis. Booli develops products and services for the housing market. SBAB and SCBC are hereinafter jointly referred to as the "SBAB Group". Both SBAB and SCBC will be able to issue green bonds under the SBAB Group's Green Bond Framework.

SBAB has two business areas: Retail and Corporate Clients & Tenant-Owners' Associations. The Retail business area offers savings and loan products and home and housing services to consumers. The Corporate Clients & Tenant-Owners' Associations business area offers savings and housing financing to property companies and tenant-owners' associations.

SBAB Group's vision has recently been updated so that business and sustainability goals are viewed jointly and as of the financial year 2015, sustainability is reported as an integrated part of the Annual Report. SBAB's current three operational targets are (i) Responsibility and transparency; (ii) Attractive workplace; and (iii) Sound finances. The company has assigned priority to four of the Sustainable Development Goals (SDGs), considered to be particularly important and relevant for the SBAB Group's operations.

SBAB offers Green Mortgages (Sw. *Grönt Bolån*), a discounted residential mortgage available for all customers living in properties with an Energy Performance Certificate (EPC) energy class of A, B or C. It also offers discounted Green Loans (Sw. *Gröna Lån*) to corporate clients and tenant-owners' associations.

SBAB has not so far undertaken climate scenario analysis or screened for extreme weather events which might affect its properties. However, it has recently undertaken a comprehensive 'gap analysis' focusing on sustainability risks and opportunities in its business. In this analysis, building climate resilience and assessing flooding risk came out as one of the areas that will be followed up.

SBAB published its first Green Bond Framework in 2016, and that framework was also assessed by CICERO. This updated green bond framework is the first Green Bond Framework to be published by the SBAB Group. The rationale for updating the green bond framework is (i) to include SCBC as a prospective issuer of green bonds, (ii) to ensure alignment with the 2018 Green Bond Principles (GBP) published by the International Capital Market Association (ICMA); and (iii) to continue to promote the transition to a low carbon and climate resilient society through the funding of green buildings and buildings which are or will become more energy efficient.

**Use of Proceeds:**

The SBAB Group's Green Bond Framework enables the SBAB Group to issue green bonds in the form of notes under SBAB's Euro Medium Term Note Programme and in the form of covered bonds under SCBC's Euro Medium Term Covered Note Programme. The relevant final terms for each green bond issued thereunder will include a reference to the SBAB Group's Green Bond Framework under the "Use of proceeds" section.

The proceeds of the green bonds will be allocated to financing mortgages (Sw. *bolån*) on energy efficient buildings (EPC A, B or C – see Section 3 for further discussion) for retail customers and energy efficient and green buildings for corporate (including tenant-owner associations (Sw. *bostadsrättsföreningar*)) customers. Consumer loans and corporate loans to improve a property's energy usage and, in relation to the discounted Green Loans referred to above, loans to make environment-enhancing improvements on the property, are also eligible. Eligible projects are further described in Section 3 below.

The division of the allocation of green bond proceeds between new projects and refinancing will be made clear in annual reporting to green bond investors.

**Selection:**

Eligible projects will be selected by the SBAB Group's Sustainable Bond Committee, which currently consists of a representative from Treasury, Head of Corporate Clients & Tenant-owners' Associations (corporate lending), Head of Customer Experience (private lending), Head of Property Valuation, and sustainability strategists from the corporate and private lending divisions. Formal decisions will be made (through delegation by the respective CEO in SBAB and SCBC) on a simple majority basis provided that at least three members of the SBAB Group's Sustainable Bond Committee are present, including at least one of the two Sustainability Strategists.

The SBAB Group's Sustainable Bond Committee is responsible for keeping all internal documentation relating to the issuance of SBAB Group green bonds up to date and for ensuring internal compliance therewith. It will meet on a regular basis and at least four times per year

SBAB's current internal credit instructions prescribe that, in relation to corporate clients and tenant-owner association customers, midsize and large property owners and producers shall be prioritised as will those located in a growing municipality (as defined in the SBAB Group's internal classification system). This will mean a concentration of projects in the Stockholm, Gothenburg and Malmö areas. In relation to the retail business area, the SBAB Group's products and services are offered online or by telephone making them easily available to customers located anywhere in Sweden.

**Management of proceeds:**

The SBAB Group has assigned specific series and identification numbers to its SBAB Group green bonds, separating them from the companies' other bonds in issue. Similarly, each loan that fulfils the green bond eligibility criteria will be marked and thus designated as an Eligible Green Loan (as defined in the SBAB Group Green Bond Framework).

The net proceeds of any green bond issuance will be allocated to a portfolio of Eligible Green Loans. It is the SBAB Group's intention to designate sufficient Eligible Green Loans to ensure that the combined size of these always exceeds the total balance of all outstanding SBAB Group green bonds.

The SBAB Group will hold or invest any unallocated SBAB Group green bond net proceeds in accordance with SBAB's liquidity portfolio policy. In accordance with this policy, securities holdings are limited by asset class and by country and must have an AA/Aa2 rating from either Standard & Poor's or Moody's. The average maturity of the portfolio is 2.2 years, with a maximum of ten years for new investments. Investments are mainly in SEK, EUR and USD and are made in covered bonds, bonds issued by municipalities, government bonds, government guaranteed bonds and bonds issued by multinational development banks. SBAB does not invest in corporate bonds. The liquidity portfolio contains green bonds holdings (at the end of 2017 it amounted to some 2.3% of the portfolio and SBAB has a stated intention of increasing this share).

The selected Eligible Green Loans will be evaluated at least on an annual basis to ensure compliance with eligibility criteria, although a corporate loan for a new construction will be deemed to be an Eligible Green Loan from selection until completion of the relevant building. Should the Sustainable Bond Committee conclude that an Eligible Green Loan no longer fulfils the eligibility criteria, then that Eligible Green Loan will become a disqualified Eligible Green Loan and removed from the portfolio of Eligible Green Loans.

### **Transparency and Accountability:**

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

The SBAB Group will annually, and until the maturity of all SBAB Group green bonds issued, provide at least the following information to investors on its website ([www.sbab.se](http://www.sbab.se)):

- (i) a summary of green bond developments;
- (ii) the outstanding amounts of issued SBAB Group green bonds;
- (iii) the total proportion of green bond net proceeds used to finance new assets and the proportion of green bond net proceeds used to refinance existing assets;
- (iv) the total aggregated proportion of green bond net proceeds per category of the eligibility criteria (Retail, Tenant-Owners' Associations and Corporates) as further detailed in the SBAB Group Green Bond Framework;
- (v) verification of the green bond portfolio by a third party
- (vi) impact reporting: SBAB intends to show an aggregation of the loan volume and greenhouse gas avoided or reduced as a result of the Eligible Green Loans financed through the issuance of the SBAB Group green bonds. The following metrics for impact reporting will be included:
  - a. brief description of, at least, two examples of Eligible Green Loans financed through the issuance of SBAB Group green bonds (subject to customer approval being obtained because of bank secrecy rules);
  - b. annual expected aggregated energy savings (kWh); and
  - c. expected aggregated annual greenhouse gas emissions avoided (tonnes).

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

Document Number	Document Name	Description
1	SBAB Group's Green Bond Framework 2019	The green bond framework
2	SBAB's Annual Report 2017	Annual Report
3	Vår uppförandekod	SBAB's Code of Conduct
5	Leverantörskod	SBAB's Supplier Code of Conduct
6	Jämställdhets- och mångfaldspolicy	SBAB's policy for equality and diversity
7	Etikpolicy	SBAB's Code of Ethics
8	Hållbart företagande	SBAB's policy for sustainable enterprise
9	Green Bonds Impact Report 2017	SBAB's green bond impact report from 2017
10	Analys klimatbokslut 2017	Greenhouse Gas Protocol (Dual Reporting) Report 2017
11	Hållbarhetsöversikt – Kreditgivning till företag	Sustainability Overview – Credit Granting to Corporates
12	Bolagsstyrningsrapport	SBAB's Corporate Governance Report
13	Statens ägarpolicy och riktlinjer för bolag med statligt ägande 2017	Swedish Government's Policy and Guidelines for State-Owned Enterprises, 2017
14	Green Bond Framework 2016	SBAB's Green Bond Framework from 2016
15	Ersättningspolicy	SBAB's Remuneration Policy
16	Statistik om energideklaration	Boverket's (Swedish authority) statistics on EPC performance of Swedish Buildings
17	Factsheet: Sweden. Current use of EPCs and potential links to iBRoad	Boverket factsheet on EPC in Sweden

Table 1. Documents reviewed

### 3 Assessment of SBAB Group's Green Bond Framework and environmental policies

Overall, the SBAB Group's Green Bond Framework provides a detailed and sound framework for climate-friendly investments.

The SBAB Group's Green Bond 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.

#### Overall shading

Based on the project category shading detailed below and consideration of the issuers' sustainability work and green bond framework more broadly, we rate the framework **CICERO Medium Green**.

#### Eligible projects under the SBAB Group'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 certainty to investors that their investments deliver environmental returns as well as financial returns. The Green Bond Principles 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
Retail customer: Energy efficient buildings 	<ul style="list-style-type: none"> <li>Residential retail mortgage loans</li> </ul> <p>The loans must be for properties owned or Tenant-Owners' Rights (Sw. bostadsrätter) held by one or more individuals where the building on such property (i) has obtained an EPC with energy class A or B (where the construction was initiated on or after 1 January 2014); (ii) has obtained an EPC with energy class A, B or C (where the construction was initiated before 1 January 2014); or (iii) has an energy performance equivalent to a new EPC</p>	<p><b>Medium green</b></p> <ul style="list-style-type: none"> <li>✓ Minimum EPC requirement according to Swedish building regulations for new builds has since 2014 been C</li> <li>✓ Rebound effects can lower the impact of energy efficiency measures (this concern also applies to all categories below)</li> <li>✓ SBAB does not track the heating source of the buildings of its mortgages. While heating in Sweden</li> </ul>

Category	Eligible project types	Green Shading and some concerns
	with the required criteria set out in (i) or (ii) above (as applicable).	tends to be majority renewables-based, some fossil fuel generation remains
<p>Retail customer: Reduction of energy usage</p> 	<ul style="list-style-type: none"> <li>Residential retail mortgage loan and/or consumer loan</li> </ul> <p>The loan must be for buildings where the final energy use per m<sup>2</sup>/year on the property has been reduced by at least 30%, as evidence e.g. by a new EPC.</p>	<p><b>Medium green</b></p> <p>✓ A 30% reduction is in line with the IEA ‘well below 2 C’ target. The issuer should however be conscious of the improvement in standards that will be required over time in order to reach the 2050 targets.</p>
<p>Corporate Clients and Tenant Owners’ Association:  Energy efficient and green buildings; new constructions and major renovations</p> 	<ul style="list-style-type: none"> <li>Corporate loans for new constructions or rehabilitations or major renovations of commercial buildings where the intention is to obtain at least one of the following certifications: <ul style="list-style-type: none"> <li>EPC with energy class A or B;</li> <li>Miljöbyggnad, (minimum certification “silver”)</li> <li>Svanen (Nordic Swan);</li> <li>Passivhus (Passive House);</li> <li>Green Building</li> </ul> </li> </ul>	<p><b>Medium green</b></p> <p>✓ Note that all construction projects can have negative local environmental impacts and that these should be minimized.</p>
<p>Corporate Clients and Tenant Owners’ Association:  Energy Efficient Buildings (existing)</p> 	<ul style="list-style-type: none"> <li>Corporate loans or loans to Tenant Owners’ Associations for properties owned by an entity (including a tenant-owner association) where the residential or commercial building on such property: <p>(i) has obtained an EPC with energy class A or B (where the construction was initiated on or after 1 January</p> </li> </ul>	<p><b>Medium green</b></p>

Category	Eligible project types	Green Shading and some concerns
	<p>2014); (ii) has obtained an EPC with energy class A, B or C (where the construction was initiated before 1 January 2014); or (iii) has an energy performance equivalent to a new EPC with the required criteria set out in (i) or (ii) above (as applicable).</p>	
<p>Corporate Clients and Tenant Owners' Association:</p> <p>Reduction of energy usage</p> 	<ul style="list-style-type: none"> <li>Corporate loans or loans to Tenant Owners' Associations for properties where the final energy use per m<sup>2</sup>/year on the property has been reduced by at least 30%, as evidence e.g. by a new EPC.</li> </ul>	<p><b>Medium green</b></p> <ul style="list-style-type: none"> <li>✓ A 30% reduction is in line with the IEA 'well below 2 C' target. The issuer should however be conscious of the improvement in standards that will be required over time in order to reach the 2050 targets.</li> </ul>
<p>Corporate Clients and Tenant Owners' Association:</p> <p>Energy efficiency and other green investments</p> 	<ul style="list-style-type: none"> <li>SBAB Green Loans to tenant-owners' associations for activities in buildings where the project plan specifies that the intention is either to reduce the energy use in such building (e.g. new heat source) or to have an environment enhancing impact (e.g. removal of certain materials such as PCBs) and has qualified to be an SBAB Group green loan in accordance with the <a href="#">terms set out</a> from time to time on SBAB's website</li> </ul>	<p><b>Medium green</b></p> <ul style="list-style-type: none"> <li>✓ SBAB has informed us that energy efficiency upgrades related to fossil fuel-based energy sources will not be eligible for a green loan</li> <li>✓ Be aware of lock-in effects. E.g. the share of fossil fuels in district heating networks in Sweden is low, but regional differences exist.</li> </ul>

Table 2. Eligible project categories

### Building sector certification schemes and the SBAB Group's Green Bond Framework

In Sweden, the residential and service sectors account for almost 40% of the total energy use (Source: Swedish Energy Agency, "Energy in Sweden 2017"). Although heating-related GHG emissions have been dramatically reduced since the transition from oil-based heating to district heating during the 1990's, energy consumption in

buildings still has potential to improve. One of the ways of encouraging greater energy efficiency focus is through the use of energy performance certificates – or EPCs. EPCs have been a legal requirement in Sweden since 2006 and categorise a property on a range from A (low energy consumption) to G (high energy consumption). A building that has an energy consumption corresponding to the requirement imposed on a newly built building is placed in energy class C.

Properties can choose to be certified according to other sustainability schemes as well, such as the Sweden-specific *Miljöbyggnad* (in addition to energy use, indoor climate and material use are assessed), the Nordic Swan (*Svanen*) system, Passive House, Green Building, LEED, BREEAM or BREEAM-SE. These schemes provide varying degrees of measurement of the environmental footprint of a building, including energy use. Some are more stringent than others and also offer internal gradings (excellent-good, platinum-silver, etc.). Voluntary environmental certifications such as LEED and BREEAM or equivalents that measure or estimate the environmental footprint of buildings and raise awareness of environmental issues. These certifications however fall short of guaranteeing an environmentally-friendly building. Therefore, CICERO also looks at the energy efficiency improvements of the building and targets that exceed regulations. In a low carbon 2050 perspective, the energy performance of buildings is expected to be improved, with passive house technology becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments. According to the International Energy Agency (IEA), efficiency of buildings needs to improve by 30% by 2025 in order to reach the Paris Agreement well below 2°C climate goal<sup>1</sup>. We also assess if there is any screening for potential impacts from more extreme weather events, such as flooding. Flood risk for properties, is of particular concerns in vulnerable geographic regions such as close to rivers exposed to flood risks. We also factor in if there have been any considerations around transportation solutions and environmental impacts in the construction phase of the building (building material and waste considerations). 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 and is reserved for the highest building standards such as LEED Platinum, Zero-Energy buildings and passive houses.

### Governance assessment

In assessing the governance quality of the issuer, three aspects are studied: The policies and goals of relevance to the green bond framework (1); the selection process used to identify eligible projects under the framework (2); management of proceeds (3) and the reporting on the projects to investors (4). Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent.

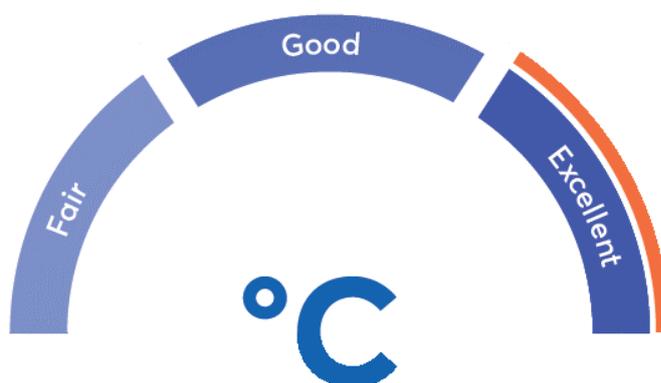


Figure 1: SBAB Governance Assessment

The overall assessment of the governance structure of SBAB gives it a rating of Excellent. The high score is mainly an acknowledgement of the issuer's detailed plans for the selection and reporting aspects of green bond eligible projects. Moreover, the bank's sustainability reporting is, as of 2017, integrated with its Annual Report indicating that the issuer has a holistic outlook on performance. It has a strong focus on the energy efficiency of

<sup>1</sup> Source: <https://www.iea.org/tcep/>

the properties in its loan portfolio, as well as its own energy use. Nevertheless, we note that other sustainability metrics, such as clean air, water, and waste receive less attention – both in the selection of buildings to include in the green bond portfolio as well as the bank’s internal environmental footprint.

SBAB undertakes sustainability reporting in accordance with GRI (Core) principles and is a signatory of UN Global Compact. The bank does not currently carry out climate scenario analysis or risk assessments of its property portfolio but has recently undertaken a GAP analysis of sustainability issues and such risk assessments will be included as a prioritised area for the bank going forward.

## Strengths

### Governance

At the end of 2017, SBAB issued a Green Bonds Impact Report for the two bonds issued in 2016 and 2017 respectively under SBAB’s Green Bond Framework from 2016. The impact report is clear and transparent on methodological aspects, which bodes well for what investors can expect from reporting on green bonds issued based on the current SBAB Group’s Green Bond Framework.

SBAB is applying a grid factor of 158 grams CO<sub>2</sub> e per kWh to calculate GHG emission reductions, which is a lower level (thus producing more conservative estimates of CO<sub>2</sub> savings) than the average grid factor used in the guideline "Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting". Moreover, the grid factor SBAB intends to use for green bond reporting is the same as the grid factor used in the company’s GRI reporting. CICERO is encouraged by the issuer’s internal consistency and methodological transparency on this aspect.

It is a strength of the SBAB Green Bond Framework that the internal tracking method and management of proceeds will be externally verified.

It is a sign of the issuer’s concern about long term sustainability that it offers discounted green loans to tenants’ associations (for energy efficiency and other green investments). In this case, SBAB is giving a financial incentive which may or may not immediately translate into revenue gains for SBAB but is considered to make long-term business and climate sense.

### Project Categories

The SBAB Group’s Green Bond Framework is a detailed and robust framework for financing the companies’ continued activities in the Swedish mortgage sector. The green bond proceeds will go towards projects selected to reduce greenhouse gas emissions (‘mitigation’).

The issuer’s use of EPC ratings as a basis for eligibility is robust, especially considering that the chosen levels are stringent. In particular, in order to obtain an A or B rating (the requirement for buildings constructed after 2014) the building has to have an energy performance that is equal to or lower than 50 or 75 percent of the requirement for a new building respectively (rated C)<sup>2</sup>. Only about 14 % of buildings in Sweden have an EPC rating, and of these only approximately 7 % have a rating of A or B<sup>3</sup>.

<sup>2</sup> Source: Boverket, <https://www.boverket.se/en/start/building-in-sweden/contractor/inspection-delivery/energy-performance-certificate/>

<sup>3</sup> Source: Boverket, [http://bpie.eu/wp-content/uploads/2018/01/iBROAD\\_CountryFactsheet\\_SWEDEN-2018.pdf](http://bpie.eu/wp-content/uploads/2018/01/iBROAD_CountryFactsheet_SWEDEN-2018.pdf) and <https://www.boverket.se/sv/byggande/energideklaration/regelverk-tillsyn--statistik/statistik-om-energideklaration/> (and weighted by residency type).

The issuer's ambition for energy efficiency improvements of 30% is in line with the IEA's guidelines for reaching the Paris Agreement below 2°C climate goal.

## Weaknesses

We find no substantial weaknesses in SBAB's Green Bond Framework. However, the bank would benefit from the use of climate scenario analysis to expose potential risks to its portfolio of properties. We are encouraged to know that the issuer is planning for such analyses to be carried out going forward. Moreover, the issuer could consider increasing the monitoring of non-energy related sustainability metrics of its business going forward, such as for waste and employee transportation methods.

## Pitfalls

### *Project Categories*

In a low carbon 2050 perspective, the energy performance of buildings is expected to be improved, with passive house technology becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments. SBAB's chosen standard for energy efficiency is encouraging, but the issuer should be conscious of the improvement in standards that will be required over time in order to reach the 2050 targets.

The inclusion of buildings with an EPC rating of C (if constructed before 2014) means that there is potential for the green bond portfolio to contain a share (unknown but potentially large) of buildings that have an energy footprint which is better than current building regulations but not very ambitious compared to baseline. SBAB should be mindful of the composition of the green bond portfolio and strive to make it as environmentally stringent as possible.

Compared to the marked value of the buildings, the share related to energy improvement investments may be relatively small.

The company does not currently track the heating source for its properties. Traditionally, properties in Sweden are heated by a mix of district heating, renewables, oil and electricity. SBAB should in the future consider restricting its selection of Eligible Green Projects to those that are heated by non-fossil fuel sources.

### *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. SBAB's eligible green projects are all related to energy efficiency so this is a concern: the bank should be aware of such effects and possibly avoid funding of projects where the risk of rebound effects is particularly high.

# Appendix: About CICERO

CICERO Center for International Climate Research is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international climate cooperation. We collaborate with top researchers from around the world and publish in recognized international journals, reports, books and periodicals. CICERO has garnered particular attention for its work on the effects of manmade emissions on the climate and the formulation of international agreements and has played an active role in the UN's IPCC since 1995.

CICERO is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO received a Green Bond Award from Climate Bonds Initiative for being the biggest second opinion provider in 2016 and from Environmental Finance for being the best external review provider (2017).

CICERO Second Opinions are graded dark green, medium green and light green to offer investors better insight in the environmental quality of green bonds. The shading, introduced in spring 2015, reflects the climate and environmental ambitions of the bonds in the light of the transition to a low-carbon society.

CICERO works with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions. Led by CICERO, ENSO is comprised of trusted 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). ENSO operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

[cicero.oslo.no/greenbonds](http://cicero.oslo.no/greenbonds)

