

Swedbank Green Bond Framework

October 2017

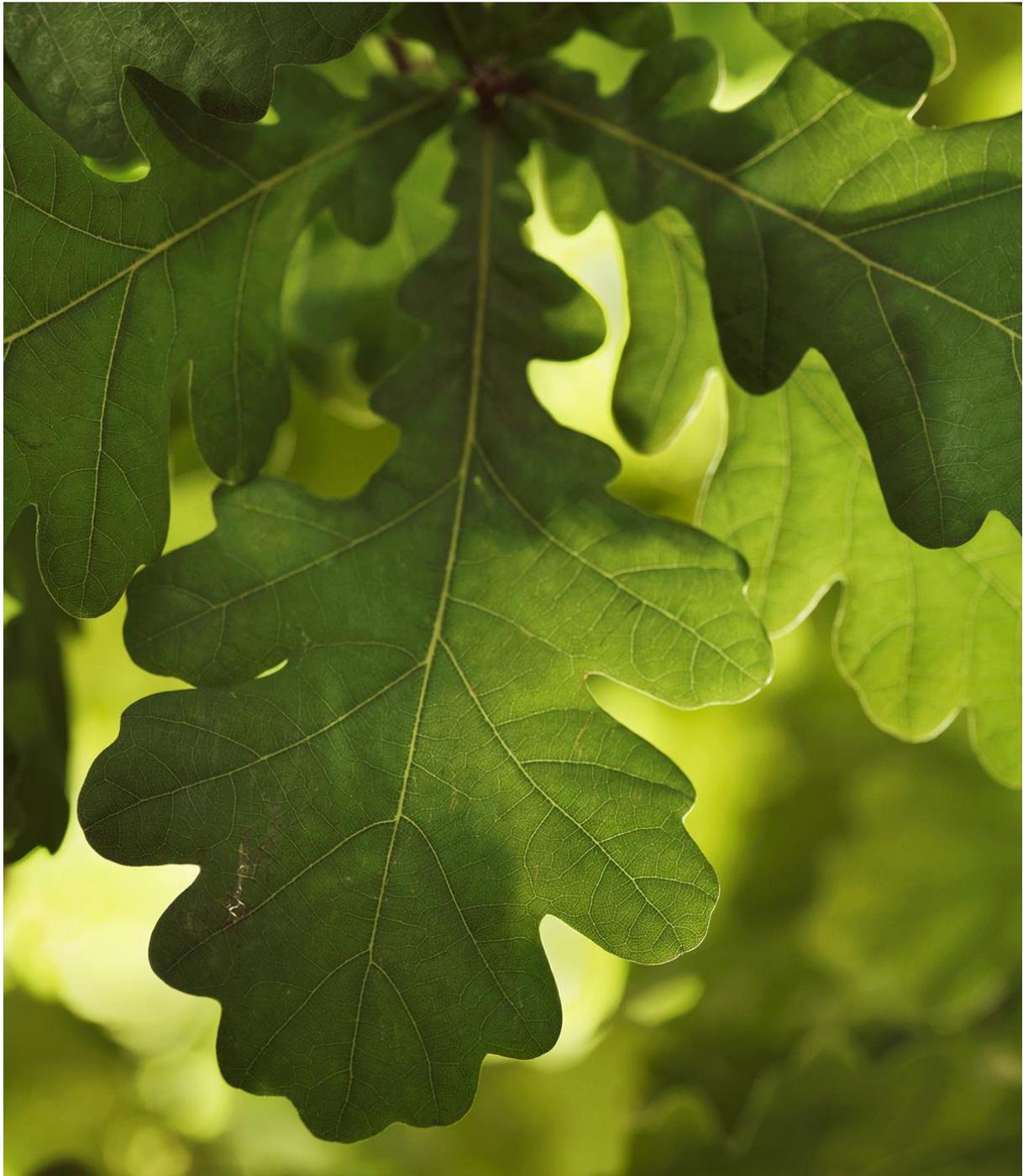


Table of Contents

1.	Introduction.....	3
1.1	Background	3
1.2	Swedbank Green Bond	3
2	Use of Proceeds	4
3	Green Asset Evaluation and Selection Process	5
3.1	The Credit Process	5
3.2	Selection of Eligible Green Assets	5
3.3	Green Bond Sustainability Analysis	6
3.4	Green Bond Committee	6
3.5	Registration of Eligible Green Assets	6
4	Management of Proceeds.....	6
5	Reporting	7
5.1	Use of proceeds reporting.....	7
5.2	Impact reporting	7
6	External Review	8
6.1	Second opinion.....	8
6.2	Assurance.....	8

1. Introduction

1.1 Background

As a financial institution Swedbank Group (Swedbank) is an integrated part of society and therefore has a responsibility and a key role to play in accelerating the transition towards a sustainable future. Swedbank acknowledges that climate change is amongst society's greatest challenges and as increased concentration of greenhouse gases (GHG) warm the planet it creates substantial risks for both prosperity and growth. An unwillingness to acknowledge and act in accordance with these findings would drastically increase the probability of global warming in excess of 2 degrees Celsius and jeopardise the 2015 Paris Agreement on Climate Change.

Sweden is committed to reduce GHG emissions to become a fossil free society by year 2050, in line with "Roadmap 2050"¹ and its efforts to reach the Global Climate Agreement. Swedbank's sustainability strategy clarifies the importance of contributing to a sustainable use of earth's finite resources and to lower greenhouse gas emissions through all our business activities. This is done by integrating climate change and resource efficiency considerations in our business decisions – within the organisation and through our lending and investments. Swedbank's issuance of green bonds is a part of our overall sustainability approach, and to support our clients in making positive environmental impacts within the fields of renewable energy, energy efficiency, green buildings, waste management, sustainable forestry and agriculture and clean transport in particular.

1.2 Swedbank Green Bonds

By issuing Green Bonds, Swedbank has the opportunity to promote and support the long-term development of sustainable solutions through financing sustainable innovations and services. In line with the UN Sustainable Development Goals (SDG), Agenda 2030, Swedbank's Green Bonds will promote the following goals:SDG7 Affordable and Clean Energy, SDG9 Industry, innovation and infrastructure, SDG11 Sustainable Cities and Communities, SDG13 Climate Action and SDG15 Life on land.

Swedbank's Green Bond Framework (the Framework) is compliant with the Green Bond Principles 2017 (GBP)². The framework as described herein is henceforth applicable for all Swedbank Green Bonds.

In the next pages, the framework for Swedbank Green Bonds will be further explained based on the core components of the Green Bond Principles:

- Use of Proceeds
- Green Asset Evaluation and Selection Process
- Management of Proceeds
- Reporting
- External review

¹ Roadmap 2050 <http://www.regeringen.se/rattsdokument/kommittedirektiv/2014/04/dir.-201453/>

² International Capital Market Association and Green Bond Principles: <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/>

2 Use of Proceeds

The proceeds of each Swedbank Green Bond will be used to finance and re-finance, in whole or in part, loans and investments (Eligible Green Assets) that provide clear environmental benefits and promote the transition to low-carbon, climate resilient and sustainable economies. Swedbank will exercise its professional judgement, discretion and sustainability expertise in the process of defining the Use of Proceeds. The Eligible Green Assets will be located within the Nordic and Baltic countries and fulfil the criteria (Eligibility Criteria) as outlined in the table below:

Eligible Green Assets	Sustainable Development Goal
Renewable Energy	SDG7 and SDG13
Renewable energy projects, defined as renewable energy from the following sources: <ul style="list-style-type: none"> ○ Wind energy. ○ Solar energy. ○ Small scale hydro energy (hydropower plant of maximum 10 megawatts (MW) of generating capacity) or investments in existing larger hydro power plants (above 10 MW of generating capacity) for refurbishments without increasing the size of its impoundment facility³. 	
Energy Efficiency	SDG7, SDG11 and SDG13
<ol style="list-style-type: none"> 1. Green buildings, either residential or commercial real estate, including at least one of the following three criteria: <ul style="list-style-type: none"> ○ Buildings with an energy performance classification in the energy declaration issued by the Swedish National Board of Housing, Building and Planning (Sw. Boverket) of at least level B⁴. ○ Buildings which meet the following recognised environmental standards; <ul style="list-style-type: none"> ▪ BREEAM or BREEAM-SE⁵ (minimum certification "very good") ▪ LEED⁶ (minimum certification "gold") ▪ Sweden Green Building Council Miljöbyggnad⁷ (minimum certification "silver") ▪ Green Building⁸ ▪ Or any equivalent certification as determined by Group Sustainability at Swedbank. ○ Property upgrade of existing commercial or residential buildings which results in an energy consumption of at least 25% below the average national energy consumption of an equivalent building. 2. Other energy efficiency projects, including infrastructure, technology, processes such as energy storage, smart grid solutions and district heating/cooling from renewable energy sources leading to reduced energy losses of at least 25%. 	
Sustainable Management of Living Natural Resources	SDG15
Sustainable management of living natural resources defined as sustainable forestry and agriculture which meet recognised environmental standards such as; <ul style="list-style-type: none"> ○ Sustainable forestry defined as forestry certified by the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC). ○ Sustainable agriculture defined as certified organic farming in compliance with national and EU-legislation. 	
Pollution Prevention and Control	SDG11
Pollution prevention and control, defined as sustainable waste management including; <ul style="list-style-type: none"> ○ Waste management such as recycling and waste to energy generation defined as biogas production of organic waste, non-recyclable municipal waste for incineration or forest biomass from areas that have, or meet the requirements for, FSC or PEFC certification. 	
Clean Transportation	SDG9 and SDG11, SDG13
Clean transportation defined as public passenger transport and low carbon vehicle solutions, systems and charging/supporting infrastructure reducing air pollution and climate impact including: <ul style="list-style-type: none"> ○ Public passenger transport such as electric rail, metros, trams and electric or hybrid buses. ○ Low carbon vehicles⁹ defined as electric, fuel cell and hybrid vehicles. 	

³ Hydro energy projects are limited to the Nordic countries.

⁴ Energy classification of at least B is equivalent with an energy performance of > 50 - ≤ 75 percent of the energy requirement for new buildings in Sweden.

⁵ BREEAM: <http://www.breeam.org/>

⁶ LEED: <http://www.usgbc.org/certification>

⁷ Miljöbyggnad: <https://www.sgbc.se/var-verksamhet/miljobyggnad>

⁸ Green Building <https://www.sgbc.se/var-verksamhet/greenbuilding>

⁹ Passenger vehicle that complies with Euro 5 and Euro 6 emission standards and does not emit more than 50 grams of CO₂ per kilometer in mixed driving.

3 Green Asset Evaluation and Selection Process

The Green Asset Evaluation and Selection Process is a key process in ensuring that the assets financed by Green Bond Proceeds are allocated to projects and assets which meet the criteria in the Framework in section 2. The process establishes and explains the internal procedures for the evaluation, selection, approval, and registration of green assets that are eligible for inclusion in the green asset portfolio. The process is based on the criteria and components described in the Framework. It will also determine that use of proceeds does not fund other activities falling outside the Eligible Green Assets.

3.1 The Credit Process

The first step in the Green Asset Evaluation and Selection Process is the regular credit process where the client, project or asset is approved for financing by Swedbank. All loans are processed through the credit process, which includes a Know-Your-Customer (KYC) procedure, sustainability risk assessment (see further detail below), credit risk analysis and finally a credit decision in a credit committee. Only assets approved in the regular credit process can be eligible for green funding, the qualification for green criteria does not override credit risks.

The sustainability risk assessment is based on Swedbank Group's sustainability policy framework including position statements and exclusion list and is guided by a number of sector guidelines¹⁰. These guidelines are tools to identify sector specific risks and highlight international conventions and standards which are relevant for the risk assessment. Swedbank's exclusion list is based on Swedbank's position statements on defense equipment and climate change¹¹ and states that businesses and projects that are involved in the following operations will be excluded from financing by Swedbank and will not be eligible for Use of Proceeds from a Swedbank Green Bond, for example:

- Swedbank applies a zero tolerance principle for financial services to customers belonging to a group that is manufacturing, modernising, selling or buying nuclear weapons or illegal weapons such as anti-personnel mines, cluster bombs, chemical weapons and biological weapons.
- Swedbank never finances nor facilitates the export of defense equipment or services to any country that is subject to EU or UN sanctions.
- Swedbank does not finance or invest in companies mining and producing coal corresponding to more than 30 percent of its turnover.
- Swedbank does not directly finance coal power plants.

Following an approved credit decision, the Green Asset Evaluation and Selection Process then follows the steps described in the next sections.

3.2 Selection of Eligible Green Assets

The assets which are potentially eligible for inclusion in the Green Bond Portfolio are initially screened and selected by the business units. The business unit fills in a pre-defined Green Asset Application together with supporting documentation, which is submitted to Group Sustainability. The information in the application describes the type of asset, relevant key performance indicators and forms the basis and support for the Green Bond Sustainability Analysis.

¹⁰ The Swedbank Sector Guidelines <https://www.swedbank.com/sustainability/sustainability-at-swedbank/sustainability-framework/policies-and-guidelines/sector-guidelines/>

¹¹ The Swedbank Position Statements and Exclusion List <https://www.swedbank.com/sustainability/sustainability-at-swedbank/sustainability-framework/policies-and-guidelines/position-statements/index.htm>

3.3 Green Bond Sustainability Analysis

On the basis of the Green Asset Application and supporting documents, Group Sustainability performs a Green Bond Sustainability Analysis of the asset to determine if it is compliant with the criteria defined in the Framework in section 2. The climate and environmental benefits are reviewed, evaluated and quantified. If the asset is compliant with the established criteria in the Framework, Group Sustainability will send a proposal for recommendation to the Green Bond Committee.

3.4 Green Bond Committee

The Green Asset Application is presented to the Green Bond Committee which reviews the result of the Green Bond Sustainability Analysis and ratifies if the project is an Eligible Green Asset for a Swedbank Green Bond in accordance with the Framework.

The Green Bond Committee is chaired by the Head of Group Sustainability, and consists of representatives from relevant functions such as Group Risk, Group Treasury, Large Corporates and Institutions and Swedish Banking (Retail). Group Sustainability has a veto right in the committee. The Committee is responsible for governing the Swedbank Green Bond Framework, the approval of the allocation of the Green Bond Proceeds and the environmental impact reporting of the Green Bond Portfolio. Green Bond Committee meetings shall normally be held every other month or when it is considered necessary. Decisions made by the Green Bond Committee shall be recorded in the minutes and be provided to the auditors.

3.5 Registration of Eligible Green Assets

Following an approval in the Green Bond Committee, the Eligible Green Assets are registered in the Green Asset Register which will be monitored during the term of the bond. The register is used for continuous monitoring, matching and reporting of the use of proceeds, to track the proceeds and to ensure that Green Bonds proceeds are sufficiently allocated to Eligible Green Assets on a regular basis. Eligible Green Assets will be registered using a unique identifier.

4 Management of Proceeds

Swedbank has internal systems in place to track the proceeds of its Green Bonds. The Green Asset Register will be monitored by Group Treasury on a quarterly basis, to ensure that all proceeds from Green Bond issuances are allocated to a corresponding amount of Eligible Green Assets. It will also ensure that Eligible Green Assets will not be nominated to other Green Bonds during the term of the specific bond.

For any Swedbank Green Bond to be issued, the Green Assets Register must have identified and determined as Eligible a volume of Eligible Green Assets at least amounting to the intended issuance size.

Funds may be reallocated to other Eligible Green Assets at any time during the term of the bond. In the case of Eligible Green Assets exiting the Green Portfolio due to divestments, maturities or other reasons, Swedbank will primarily seek to redistribute proceeds to other Eligible Green Assets.

In the case that there are no eligible green assets available, proceeds are will be invested in accordance with our internal sustainability policy framework and the requirements for the liquidity reserve, with a preference for green bond principles compliant green bonds, given adequate market availability.

5 Reporting

To be fully transparent towards the Green Bond's investors and other market stakeholders, Swedbank commits to regular reporting at least on an annual basis until full allocation, and thereafter if material changes to the portfolio, on the use of proceeds and the environmental impact of the Green Bonds Portfolio.

5.1 Use of proceeds reporting

Swedbank will on at least annual basis report on the use of the Green Bonds proceeds on the Swedbank Green Bond webpage¹². The report will detail:

- total amount of Green Bonds issued
- allocation of proceeds within each Green Bond's Asset Category
- total amount of unallocated proceeds
- share of proceeds used for financing/re-financing

5.2 Impact reporting

Swedbank will, on an annual basis publish a Green Bond Impact Report. The report will include details on the environmental impacts of the financed Eligible Green Assets on portfolio level and will be published until the maturity of Swedbank Green Bond(s). Information with respect to borrowers and their businesses and projects, will be subject to permitted disclosure in accordance with relevant confidentiality agreements. The Green Bond Impact Report will be reviewed and approved by the Green Bond Committee and it will be available on the Swedbank Green Bond webpage (ibid).

The integrated impact indicators included in the report will highlight the expected or actual impact of the Eligible Green Assets that Swedbank finances. Examples of quantitative impact indicators are outlined in the table below.

Green Bond Principles category	Swedbank category	SDG	Quantitative impact indicators
Renewable Energy	Wind, Solar and Hydro energy	7, 13	Installed capacity added (MW)
			Expected annual generation (MWh)
			Estimated annual GHG emissions avoided (tCO ₂ e)
Energy Efficiency	Energy storage, Smart grids, District heating or cooling	7, 11, 13	Storage capacity (MW)
			Distribution capacity (MW)
	Green Buildings		Amount of energy saved (MW)
			Estimated annual GHG emissions reduced or avoided (tCO ₂ e)
Sustainable Management of Living Natural Resources	Sustainable forestry and agriculture	15	Land area certified (hectare)
			Cropland under organic agriculture practices (hectare)
Pollution Prevention and Control	Waste management	11	Recycling (tons)
			Production capacity (MW)
Clean Transportation	Public passenger transport and low carbon vehicles	9, 11, 13	Passenger/public passenger transport (No)
			GHG emissions per kilometer (CO ₂ e)
			Estimated annual GHG emissions reduced or avoided (tCO ₂ e)

¹² The Swedbank Green Bond Webpage <http://www.swedbank.com/investor-relations/debt-investor/green-bonds/>

6 External Review

6.1 Second opinion

Swedbank will obtain an assessment Second Opinion from DNV GL to confirm the transparency and robustness of the Swedbank Green Bond Framework. The Second Opinion will be published on the Swedbank Green Bond webpage (ibid).

6.2 Assurance

An independent external auditor will be requested to review the Eligible Green Asset allocation, to provide limited assurance on the allocation of proceeds conformity to the Swedbank Green Bond Framework. The assurance report will be published on the Swedbank Green Bond webpage (ibid).